Fiscal Notes

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TEXAS ENERGY UPDATE

Higher prices for crude oil produced in Texas are putting more dollars in the state treasury despite the fact that production continues to decline.

And, there is a hope, witnessed by drilling rig activity, that the declining production rates of both crude oil and natural gas could slow or even take an upward trend as various federal programs take effect.

Consider the events since the publication of the last **Texas Energy Report** in January: the President has implemented the first stage of his crude oil deregulation plan; the Natural Gas Policy Act of 1978 has taken effect; a change of government in Iran helped precipitate a gasoline shortage; and the worst oil spill in history has occurred in Mexico's Gulf of Campeche, fouling Texas beaches.

TABLE 1
TEXAS CRUDE OIL PRODUCTION
(In Millions of Barrels)

Fiscal Year	Quarter 1st	2nd	3rd	4th	Total
1973	317.9	307.5	317.9	315.1	1,258.4
1974	311.3	300.0	309.2	305.0	1,225.5
1975	299.6	294.5	299.5	295.2	1,188.8
1976	291.4	290.4	290.6	287.3	1,159.7
1977	282.6	275.3	279.7	274.5	1,112.2
1978	269.6	260.5	264.1	255.8r	1,050.0r
1979	251.9	242.7			

SOURCE: Comptroller of Public Accounts r - revised

NOTE: This series was previously computed from regulation tax revenues, which are now used for preliminary figures only. Production tax returns have been used to revise the series.

While it is too early to assess the impact of these events on Texas, several broad conclusions can be reached. Crude oil deregulation and the provisions of the Natural Gas Policy Act should, in the short term, accelerate the average prices paid for crude oil and natural gas. The result will be additional tax receipts for the state. Likewise, if the prospect of additional revenue is an incentive to producers, more exploration and drilling should occur, thereby slowing or temporarily turning around declining production rates.

TABLE 2
PERCENTAGE CHANGE IN OIL PRODUCTION
FROM SAME QUARTER PREVIOUS YEAR

Fiscal Year	Quarter 1st	2nd	3rd	4th	Annual Percent Change
1973	---	---	---	---	---
1974	-2.1%	-2.4%	-2.7%	-3.2%	-2.6%
1975	-3.8	-1.8	-3.1	-3.2	-3.0
1976	-2.7	-1.4	-3.0	-2.7	-2.4
1977	-3.0	-5.2	-3.7	-4.5	-4.1
1978	-4.6	-5.4	-5.6	-6.8r	-5.6r
1979	-6.6	-6.8			

r - revised

SOURCE: Comptroller of Public Accounts

This summer's gasoline shortage resulted in lower state motor fuel tax collections. While the impact of the shortage is not reflected in the gallonage figures shown in this report, fourth quarter data are expected to reflect a sharp decline from last year.

Finally, the impact of the Gulf of Campeche oil spill on Texas is likely to be reflected in sales and hotel-motel tax collections for the coastal areas, not the state's energy taxes. Again, there is a time lag between the period in which a tax is collected and when it is due to the state.

OIL PRODUCTION, PRICES AND TAX REVENUES

Table 1 shows quarterly and annual crude oil production since fiscal 1973. These production figures represent total taxable production including lease use oil. As the figures indicate, Texas oil production has declined steadily over the last six and one-half years, from 1,258.4 million barrels in fiscal 1973 to 1,050.0 million barrels in fiscal 1978. As shown in Table 2, oil production in the first two quarters of fiscal 1979 has declined 6.6 and 6.8

percent, respectively, from the previous year. As noted earlier, the statistical data in the tables do not include the impact of the President's crude oil deregulation plan, the first phase of which was to allow 80 percent of all production from marginal wells to be sold at the upper-tier price; newly discovered oil to receive the world market price; old oil to decline at a rate of 1-1 2 percent per month; and any incremental new production resulting from enhanced recovery techniques to receive world prices. All of these actions were effective June 1, 1979, and should be reflected on data extracted from tax records later this year.

TABLE 3
OIL PRODUCTION FROM MARGINAL WELLS
(In Millions of Barrels)

Fiscal Year and Quarter	Production Range and Well Depth: 0 - 10 Bbls. under 2,000 ft.	0 - 20 Bbls. 2,001 - 4,000	0 - 25 Bbls. 4,001 - 6,000	0 - 30 Bbls. 6,001 - 8,000	0 - 35 Bbls. 8,001 -	Total[1] Marginal Production
1977 - 1st	5.5	35.5	28.5	17.2	6.9	93.6
2nd	5.3	34.9	28.6	16.4	7.0	92.2
3rd	5.6	36.1	29.6	16.7	7.3	95.3
4th	5.5	35.8	29.4	16.1	7.7	94.4
Total[1]	21.9	142.3	116.1	66.4	28.9	375.6
1978 - 1st	5.4	35.4	29.1	16.0	7.8	93.7
2nd	5.2	34.4	28.8	15.8	7.7	91.9
3rd	5.4	35.4	30.1	16.1	7.8	94.8
4th	5.3	34.6	30.2	16.0	7.8	93.9
Total[1]	21.3	139.7	118.2	64.0	31.1	374.3
1979 - 1st	5.3	34.0	30.5	16.5	7.6	93.9
2nd	5.0	33.1	29.8	16.2	7.9	92.1
3rd	5.0	29.9	27.4	14.1	6.3	82.7

[1]Totals may not add due to rounding

SOURCE: Texas Railroad Commission

TABLE 4
AVERAGE TEXAS CRUDE OIL PRICE PER BARREL

Fiscal Year	Quarter: 1st	2nd	3rd	4th	Fiscal Year Average
1973	$3.48	$3.48	$3.61	$3.93	$3.59
1974	4.61	6.77	6.92	6.71	6.12
1975	6.82	7.64	7.79	7.76	7.36
1976	7.76	8.30	7.86	7.99	8.04
1977	8.40	8.42	8.28	8.36	8.33
1978	8.72	8.92	9.11	9.27r	9.00r
1979	9.49	9.79			

SOURCE: Comptroller of Public Accounts r - revised

TABLE 5
PERCENTAGE CHANGE IN OIL PRICES FROM THE SAME QUARTER PREVIOUS YEAR

Fiscal Year	Quarter: 1st	2nd	3rd	4th	Annual Percent Change
1973	----	----	----	----	----
1974	+32.5%	+94.5%	+91.7%	+70.7%	+70.5%
1975	+47.9	+12.9	+12.6	+15.7	+20.3
1976	+13.8	+ 8.6	+ 0.9	+ 3.0	+ 9.2
1977	+ 8.3	+ 1.5	+ 5.3	+ 4.6	+ 3.6
1978	+ 3.8	+ 5.9	+10.0	+10.9r	+ 8.0r
1979	+ 8.8	+ 9.8			

SOURCE: Comptroller of Public Accounts r - revised

The most immediate benefit from this plan should be reflected in marginal-well production, as sharply increased prices will provide the economic incentive to continue production from wells which would otherwise be capped. During fiscal year 1978, more than 35.6 percent of all Texas crude oil production was from marginal wells. This production (shown in Table 3) has remained fairly constant through the first three quarters of FY 1979, although there was some decline during the third quarter.

While crude oil production in Texas has continued to decline, crude oil prices have risen. Table 4 shows quarterly crude oil prices since fiscal 1973. These crude oil price increases--8.8 and 8.9 percent for the first two quarters of FY 1979 (see Table 5)--have provided increased tax revenue for the State.

as reflected in Table 6. This increase is roughly equivalent to the percentage difference between the decline in production and the increased value of crude oil.

NATURAL GAS PRODUCTION, PRICES AND TAX REVENUE

Natural gas production (shown in Tables 7 and 8) continues to decline, although at a slightly lower rate during the first two quarters of FY 1979 than that experienced during FY 1978. Some analysts argue that at least part of this decline was the result of lack of demand rather than ability to produce, particularly in the intrastate market, shown by the so-called "bubble" of surplus gas so widely reported. As the NGPA is implemented and the dual market for natural gas is eliminated, the movement of temporary intrastate surpluses to meet interstate demands should aid in reducing the decline rate.

The increases in natural gas prices have slowed over the last year (see Tables 9 and 10). While price increases were experienced in the first two quarters of FY 1979, their percentage increases were only 6.9 and 9.4 percent, respectively. This compares with 16.5 and 17.0 percent gains for the same quarters during the prior year. Collections from the natural gas production tax have slowed as well, showing gains of 9.2 and 7.1 percent for fiscal years 1978 and 1979, respectively.

DRILLING ACTIVITY

The average number of drilling rigs in operation in Texas, as shown in Table 12, reflected a healthy increase during the first quarter of FY 1979 and declined sharply during the second and third quarters. The reasons behind this decline are open to speculation; however, the timing with respect to the implementation of the NGPA and the President's crude oil

TABLE 6
TEXAS CRUDE OIL PRODUCTION TAX REVENUE[1]
(In Millions of Dollars)

Fiscal Year	Quarter 1st	2nd	3rd	4th	Total	Annual Percent Change
1973	$ 51.8	$ 50.6	$ 49.8	$ 55.4	$207.6	+ 8.9%
1974	62.3	88.2	98.7	95.6	344.8	+66.1
1975	92.6	101.8	106.1	102.0	402.5	+16.7
1976	109.0	111.5	97.7	110.9	429.1	+ 6.6
1977	108.5	108.6	103.9	105.3	426.3	0.7
1978	107.7	105.1	109.3	113.1	435.2	+ 2.1
1979	111.4	109.4	115.0	129.0	464.8	+ 6.8

SOURCE: Comptroller of Public Accounts

[1] Tax revenues are reported for the quarter in which the tax is paid and do not correspond directly to the production figures shown in earlier tables.

TABLE 7
TEXAS NATURAL GAS PRODUCTION
(In Billion Cubic Feet)

Fiscal Year	Quarter 1st	2nd	3rd	4th	Fiscal Year Total
1973	2,217.7	2,264.7	2,220.9	2,261.5	8,964.8
1974	2,151.7	2,225.6	2,261.7	2,278.1	8,917.1
1975	1,989.3	1,929.3	1,929.0	1,964.8	7,812.4
1976	1,911.6	1,962.3	1,858.1	1,834.9	7,566.9
1977	1,862.4	1,914.3	1,854.2	1,896.5	7,527.4
1978	1,745.1	1,814.4	1,745.6	1,744.9	7,050.0
1979	1,636.9	1,721.3			

SOURCE: Comptroller of Public Accounts

TABLE 8
PERCENTAGE CHANGE IN NATURAL GAS PRODUCTION FROM SAME QUARTER PREVIOUS YEAR

Fiscal Year	Quarter 1st	2nd	3rd	4th	Annual Percent Change
1973	---	---	---	---	---
1974	-3.0%	- 1.7%	+ 1.8%	+ 0.7%	- 0.5%
1975	-7.5	-13.3	-14.7	-13.7	-12.4
1976	-3.9	+ 1.7	- 3.7	- 6.6	- 3.1
1977	-2.6	- 2.4	- 0.2	+ 3.4	- 0.5
1978	-6.3	- 5.2	- 5.9	- 8.0	- 6.3
1979	-6.2	- 5.1			

SOURCE: Comptroller of Public Accounts

TABLE 9
AVERAGE TEXAS NATURAL GAS PRICES
(In Cents per MCF)

Fiscal Year	Quarter 1st	2nd	3rd	4th	Fiscal Year Average
1973	16.96¢	17.02¢	17.82¢	19.70¢	18.58¢
1974	20.93	23.99	27.10	30.39	25.58
1975	37.51	42.21	46.55	50.88	44.29
1976	56.75	62.40	67.35	73.76	64.24
1977	78.96	83.35	88.30	91.81	84.00
1978	91.98	97.50	97.62	98.76	97.93
1979	98.34	106.70			

SOURCE: Comptroller of Public Accounts

deregulation plan suggest some uncertainty on the part of producers as to the impact of these policy changes on their operations. There are some recent indications that the trend downward was arrested during the third quarter and has turned upward again. This is reflected in fourth quarter data showing an average of 776 drilling rigs in operation.

GASOLINE CONSUMPTION

Quarterly gasoline consumption in Texas is shown in Table 13, beginning with FY 1972. The gallonage sold actually declined during fiscal 1974 and showed only a modest 0.7 percent increase in FY 1975, largely in response to the OPEC oil embargo. Since FY 1975, consumption has increased, although by smaller percentage growth rates each year.

Unfortunately, the latest complete data available--the first and second quarters of FY 1979--do not reflect the impact of the gasoline supply shortage which affected many parts of the State last summer. Fourth quarter figures are expected to show a sharp decline from the previous year as a result of this shortage.

TABLE 10
PERCENTAGE CHANGE IN NATURAL GAS PRICES FROM SAME QUARTER PREVIOUS YEAR

Fiscal Year	Quarter 1st	2nd	3rd	4th	Annual Percent Change
1973	---	---	---	---	---
1974	+23.4%	+41.0%	+52.1%	+54.3%	+37.6%
1975	+79.2	+76.0	+71.8	+67.4	+73.1
1976	+51.3	+47.8	+44.7	+45.0	+45.0
1977	+39.1	+33.6	+31.1	+24.5	+30.8
1978	+16.5	+17.0	+10.6	+ 7.6	+16.6
1979	+ 6.9	+ 9.4			

SOURCE: Comptroller of Public Accounts

TABLE 11
STATE NATURAL GAS TAX RECEIPTS[1]
(In Millions of Dollars)

Fiscal Year	Quarter 1st	2nd	3rd	4th	Total	Annual Percent Change
1973	$ 28.4	$ 29.9	$ 29.2	$ 37.4	$124.9	+ 9.2%
1974	34.2	37.0	46.4	53.5	171.1	+37.0
1975	53.4	66.2	65.3	74.6	259.5	+51.7
1976	80.1	86.6	92.4	105.5	364.6	+40.5
1977	107.0	116.5	126.7	124.0	474.2	+30.1
1978	131.0	126.5	133.8	126.5	517.2	+ 9.2
1979	131.1	127.1	144.1	152.1	554.4	+ 7.1

SOURCE: Comptroller of Public Accounts

[1]Tax receipts in each quarter do not directly correspond to production figures shown earlier because they include taxes on condensate and other liquid hydrocarbons obtained from gas production processes.

TABLE 12
AVERAGE NUMBER OF DRILLING RIGS IN OPERATION

Fiscal Year	Quarter 1st	2nd	3rd	4th	Average Annual	Annual Percent Change
1973	328	370	347	370	354	+10.3%
1974	402	436	475	512	456	+28.9
1975	562	605	627	619	603	+32.2
1976	656	671	602	632	640	+ 6.1
1977	702	733	758	785	744	+16.3
1978	806	833	854	864	839	+12.8
1979	867	796	703	737	776	- 7.5

SOURCE: Oil and Gas Journal

SUMMARY

Oil and gas production trends in Texas can still be characterized by declining production and rising prices, although recent price increases are moderate when compared with earlier years. The effects of the President's oil decontrol plan and the Natural Gas Policy Act are not yet reflected in the available data, nor is the impact of the gasoline shortage experienced during the summer. Information that will become available in the next few months should aid in our understanding of the significance of these events for state govenment and the Texas economy.

Lloyd Rolen

TABLE 13
NET TAXABLE GASOLINE CONSUMPTION
(Gross Taxable Minus Tax Paid Purchases)
(Millions of Gallons)

Fiscal Year	Quarter 1st	2nd	3rd	4th	Annual Total	Annual Percent Change
1972	1584.3	1579.2	1723.4	1825.6	6712.5	
1973	1722.7	1668.1	1838.3	1930.8	7159.9	+6.7
1974	1816.0	1591.9	1762.8	1921.2	7091.9	-0.9
1975	1676.9	1749.8	1845.2	1871.9	7143.8	+0.7
1976	1811.5	1886.6	1988.8	2098.0	7784.9	+9.0
1977	1942.6	1913.5	2083.5	2247.3	8186.9	+5.2
1978	2067.7	1921.5	2207.9	2305.4	8502.5	+3.9
1979	2158.0	2052.6				

SOURCE: Comptroller of Public Accounts

PROPOSITION 13: ONE YEAR LATER

California's Proposition 13, which cut property taxes by $7 billion during the last fiscal year, celebrated its first anniversary on June 6, 1979. Some preliminary findings on the impact on various California taxpayers are already available. According to an article in September, 1979 issue of **Consumer Reports** magazine, most California voters had expected homeowners to benefit most from Proposition 13. So far, the results have shown otherwise.

According to an analysis prepared by the Revenue and Taxation Committee of the California Assembly, owner-occupied residences received only 24 percent of the $7 billion in property tax cuts (see Table 1). About 40 percent went to property used for commercial purposes including rental property (12 percent) and commercial, industrial and agricultural property (28 percent).

The remaining 36 percent wasn't really a tax cut but a tax shift from local property taxes to federal and state taxes. By reducing property tax deductions from federal and state income tax returns, Proposition 13 raised federal income taxes for Californians by roughly $1.5 billion (22 percent of the $7 billion amount) and raised state income taxes by nearly $1 billion (14 percent of the $7 billion "cut").

The article further argues that the share of benefits from Proposition 13 derived by homeowners will continue to decrease. Proposition 13 rolls back the value of property for tax purposes to the 1975-76 level and limits the tax liability to one percent of that value. It also limits future increases in assessments to just two percent a year. However, property purchases after 1975 is valued for tax purposes at its purchase price plus two percent annually. Thus, if a house valued at $50,000 in 1975 is sold today for $100,000, the taxable value of this piece of property would double. And since owner-occupied houses in California change ownership more frequently than commercial property, the proportion of property taxes borne by homeowners is sure to rise.

TABLE 1

PERCENTAGE DISTRIBUTION OF THE $7 BILLION PROPERTY TAX CUT RESULTING FROM THE PASSAGE OF PROPOSITION 13

Owner-Occupied Residential Property		24%
Commercial Properties:		
Renter-Occupied Residential Property	12%	
Commercial, Industrial & Agricultural Property	28	
Total, Commercial Properties		40
U.S. Government (Extra Taxes)		22
State of California (Extra Taxes)		14
		100%

The other major question in the Proposition 13 debate was to what extent government services would be reduced in response to decreased tax revenues. At this time, it is still too early to tell. The $4 billion state "bailout" this past year disguised some of the impact of the tax cut on government services. But the bailout wasn't enough to cover all of the losses. To date, about 17,800 government employees have been laid off as a result of Proposition 13. In addition, most state and local employees went through the 1978-79 fiscal year without a pay raise. Cutbacks in services have been evident in library hours, park maintenance, public transportation and local health services. There has also been a reduction in maintenance of municipal facilities. However, as Proposition 13 critics state, the long-range problems of deteriorated public facilities that deferred maintenance creates have yet to be felt.

Although a number of states quickly followed California's lead and enacted carbon copy legislation, many other states considering similar measures are watching California to assess whether Proposition 13 was a success or failure (and from whose perspective). More time must pass before this judgment can be made.

Roger Vallen

1979 REVENUE COLLECTIONS

"Moderate growth" best describes state revenue collections during fiscal 1979. After several years of double-digit growth rates, state tax receipts for the 12-month period ended August 31, 1979, showed only a 7.1 percent gain above a year ago. Total revenue--tax collections, federal funds, interest earnings, land income, licenses and fees, and miscellaneous receipts--recorded an 8.6 percent increase.

Table 1 shows the major sources of state funding in fiscal 1979. Tax receipts accounted for nearly 58 percent of all dollars received, followed by federal funds (24 percent), interest income (9 percent), land income and licenses and fees (4 percent each), and miscellaneous revenue (1 percent).

The sales tax continued as the largest source of tax dollars in 1979, with collections of $2.17 billion. Other major taxes include the natural gas production tax ($554.3 million), motor fuel taxes ($489.5 million), oil production and regulation taxes ($466.7 million), and the motor vehicle sales tax ($433.3 million). Each displayed a moderate increase in collections above a year ago.

It is interesting to note that federal dollars received by state government totaled $2.28 billion during 1979, an amount greater than the sales tax. These federal funds are vital sources of financing for state welfare, education and highway programs, among others.

The slower growth rates for the major revenue sources are reflected in Table 2, which outlines the annual rates of change for fiscal years 1976-1979. In nearly every case, the percentage gain shown for 1979 is substantially below that shown for prior years.

Revenue Collections continued on page 10

TABLE 1

STATE REVENUES BY SOURCE
YEAR ENDED AUGUST 31, 1979
(Amounts in Millions)

Source	State Tax Revenues	Non-Tax Revenues	Total	% Change From Prior Fiscal Year
Tax Collection				
Sales Tax	$2,174.3			7.4
Natural Gas Tax	554.4			7.1
Motor Fuel Taxes	489.5			2.5
Oil Production & Regulation Taxes	466.7			6.8
Motor Vehicles Sales Tax	433.3			8.0
Other Taxes	1,282.5			2.5
Subtotal, Tax Revenues			$5,400.7	7.1
Non-Tax Revenues				
Federal Funds		$2,284.9		12.1
Interest Income		816.4		22.8
Licenses & Fees		395.2		- 2.6
Land Income		380.1		- 6.2
Miscellaneous Revenues		102.9		28.6
Subtotal, Non-Tax Revenues			3,979.5	10.7
GRAND TOTAL, ALL REVENUES			$9,380.2	8.6

DEVELOPMENT OF THE NATURAL GAS TAX

The discovery and development of natural gas has paralleled closely the history of the oil industry in Texas because, for the most part, the two are found together. The gas industry's development lagged behind that of oil, however, because the highly-flammable gas was mixed with oil and difficult to transport any great distance in wooden pipes. Around the trun of the centrury, technological advances were made which permitted the separation of oil and gas and transportation of gas through iron pipes. Corsicana became the first Texas city to use natural gas as a fuel in 1900, and the first natural gas company was founded in 1909.

While the first oil production tax was imposed in 1905, natural gas production was not taxed until 1931. The initial natural gas production tax levied by the 42nd Legislature provided for a two percent tax on the market value of natural gas produced in the State. Since gas expands and contracts as a function of temperature and atmospheric pressure, its measurement was also defined by law. A standard cubic foot is the volume of gas contained in one cubic foot of space at a standard pressure of 14.65 pounds per square inch atmospheric (p.s.i.a.) and a temperature of 60° F. Tax receipts from the first natural gas production tax were only $14,788 in 1931 but increased to $244,140 by 1935.

The natural gas production tax, like the oil production tax, is designated an occupation tax. According to the State Constitution, occupation tax revenues are allocated one-fourth to the

Natural Gas continued on page 9

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the State's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555. The following rules have been recently adopted.

METROPOLITAN TRANSIT AUTHORITY SALES TAX

.002 Notice to Comptroller of Adoption of Metropolitan Transit Sales and Use Tax; contested Election. The presiding officer of an MTA shall notify the Comptroller by registered or certified mail of the adoption or abolition of the MTA sales tax. The MTA sales and use tax rate may be levied only as a quarter of, a half of, three quarters of, or 1.0 percent. One whole calendar quarter shall elapse between receipt of notification by the Comptroller of adoption and the effective date of levy of the tax. Any tax increase is subject to a public election, while a decrease may be authorized by authority of the board. The Comptroller shall be notified of a decrease or increase. A rate change becomes effective on the first day of the next calendar quarter following notification of the Comptroller, unless the Comptroller requires that one full calendar quarter elapse. Any contestant of the validity of MTA sales tax election results shall notify the Comptroller within 10 days after filing such contest, and the effective date of the tax shall be suspended until the Comptroller has been notified of final judgement in the contest. Emergency Rule effective August 22, 1979. No fiscal implications are expected.

.003 Change or Alteration of Authority Boundaries: Notification Required. The presiding officer of an MTA shall notify the Comptroller of any boundary change. The MTA sales tax will become effective in added territory on the first day of the next calendar quarter after receipt of such notification. The Comptroller may delay implementation one whole calendar quarter. Emergency rule effective August 22, 1979. No fiscal implications are expected.

BUSINESS TAX

.011 County Assessed Value. A corporation which holds legal title to property is presumed to be the owner of the property. This presumption may be overcome by showing that another entity holds equitable title. This rule describes evidence required in specific situations to overcome the

Rules continued on page 9

STATE TAX STRUCTURES: AN OVERVIEW

States impose taxes on their citizens in order to finance the public services they provide. But the type of taxes levied varies by state. In general, taxes are based on ability to pay as measured by consumption (sales), income (personal, corporate), wealth (property, inheritance) or natural resources.

Over time, states have shifted the focus of their taxes. The earliest state taxes were property taxes. Later, many states decreased their use of property taxes as they became the major revenue source for local governments. Table 1 shows the trends in the major sources of state tax collections since 1922.

In 1978, the average state's tax structure consisted of general and selective sales taxes, income taxes, and a variety of lesser levies. Sales taxes accounted for 55 percent of total state tax collections; income taxes contributed almost 38 percent of total state taxes. The general sales tax was used by 45 states in 1978, with the average tax rate being four percent. Selective sales taxes, such as those on alcoholic beverages, tobacco or motor fuel, were used by every state. Personal income taxes were the second most important tax source, levied by 44 states, while corporate income taxes were imposed in 46 states. Table 2 shows these major sources of tax collections.

A brief comparison of the tax structures of selected states highlights the differences between them. Table 3 shows the percentage distribution of tax revenues by type

Tax Structures continued on page 11

TABLE 1

RANK OF MAJOR SOURCES OF STATE TAX COLLECTIONS, 1922-1973

Type of Tax	1922	1938	1948	1968	1973
Property	1	4	8	8	9
Motor vehicle and operators' license	2	3	3	5	5
Death and gift	3	8	9	9	8
Corporate income	4	7	4	4	4
Individual income	5	5	5	2	2
Motor Fuel	6	1	2	3	3
General sales	--	2	1	1	1
Alcoholic beverage	--	6	6	7	7
Tobacco product	--	9	7	6	6

Source: J.A. Maxwell & J.R. Aronson, *Financing State and Local Governments* (Washington, D.C.: Brookings Institution, 1977) p. 42.

TABLE 2

MAJOR SOURCES OF STATE TAX COLLECTIONS, 1978

Type of Tax	Number of States Using Tax	Dollars Collected (in thousands)	Percentage of Total Taxes
General sales	45	$ 35,228,983	33.4%
Selective sales	50	22,985,598	21.8
Personal income	44	29,088,194	27.6
Corporate income	46	10,717,405	10.2
Death and gift	49	1,837,275	1.7
Property	44	2,356,521	2.2
Severance	32	2,492,941	2.4
Other[1]	32	792,900	0.7
Total		$105,499,817	100.0%

Source: U.S. Bureau of the Census, *State Government Tax Collections in 1978*, (Washington, D.C.: 1979) pp. 7-8.

[1]Includes documentary and stock transfer taxes and other minor levies.

Rules continued from page 7

presumption. When a corporation holds equitable title to property, the corporation must include the property in its franchise tax return. Rule effective September 19, 1979. No significant fiscal implications are expected to result from this rule.

MOTOR VEHICLE SALES TAX

.032 Motor Vehicles Awarded as Prizes. This rule relates to the taxation of the transfer of title to a motor vehicle as a prize to the winner of a contest or drawing. The amendment is a nonsubstantive revision for clarification purposes only. Rule effective August 24, 1979. No fiscal implications are expected to result.

.033 Expiration of Out-of-State Registration. Motor vehicle sales

Rules continued on page 10

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue	Special Funds	Total Cash
Beginning Cash Balance August 1, 1979	$ 184.0	$2,767.2	$2,951.2
Revenues and Expenditures			
Revenues	$ 414.6	$ 620.2	$1,034.8
Expenditures	139.0	468.2	607.2
Net Income (or Outgo)	$ 275.6	$ 152.1	$ 427.6
Net Interfund Transfers and Investment Transactions	160.8	(567.5)	(406.7)
Total Transactions	$ 436.4	$ (415.4)	$ 20.9
Ending Cash Balance August 31, 1979	$ 620.3	$2,351.7	$2,972.1

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. New amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the State but held in the Federal Treasury.

Natural Gas continued from page 7

Available School Fund and three-fourths to priorty allocations set by the Legislature and the General Revenue Fund. In 1936 the natural gas tax rate was raised to three percent of value and tax receipts amounted to over $750,000 by 1940.

Changes in the natural gas tax rate and clarifications in the tax law have been made several times (see Table 1). Tax receipts from 1941 to 1950 ranged from one to ten million dollars.

During the 1950s and 1960s natural gas tax revenues increased steadily. By 1970, the tax contributed over five percent of all tax revenues. In the 1970s, the importance of the tax has grown as market values have risen. The natural gas tax accounted for over ten percent of tax revenues in 1977, surpassing the oil production tax for the first time since the imposition of the tax. Table 2 shows gas tax revenues and their importance to the State for the last seven fiscal years

The natural gas production tax is now second only to the sales tax as a major source of Texas tax dollars.

-Diane Schwartz

TABLE 1
NATURAL GAS TAX
RATE CHANGES

Effective Fiscal Year	Tax Rate As a Percent of Market Value	Tax Receipts in Thousands
1931	2%	$ 14.8
1937	3	616.4
1941	5.2	1,139.6
1951	5.72	13,956.7
1954	9	25,148.9
1955	8	38,761.9
1956	7	40,855.3
1970	7.5	96,376.6

TABLE 2
NATURAL GAS TAX COLLECTIONS
FISCAL YEARS 1973-1979

Fiscal Year	Tax Collections	Tax as a Percentage of Total Taxes
1974	$171,067,969	5.6%
1975	259,569,541	7.7
1976	364,587,897	9.3
1977	474,317,960	10.7
1978	517,844,242	10.3
1979	554,353,786	10.3

SOURCE: Comptroller of Public Accounts, **Annual Financial Report**, various years

Revenue Collections

continued from page 6

The sales tax showed a sizable decrease in overall gains relative to last year. After recording 19.8 percent increase in 1978, sales tax collections grew by only 7.4 percent in 1979. The exemption of residential gas and electric utility bills accounted for part of this smaller increase, as did sluggish retail sales activity.

The slowdown in motor vehicle sales tax and motor fuel tax collections can be attributed largely to rising gasoline prices and supply problems. The increase in the motor vehicle sales tax was 8.0 percent for 1979, compared with gains of 33.5, 21.3, and 22.2 percent, respectively, for fiscal years 1976, 1977 and 1978. Uncertainty over gasoline availability and the direction of the national economy as a whole are believed to be the main culprits responsible for the slower growth registered during 1979.

Motor fuel tax receipts grew by only 2.5 percent in 1979, compared with 7.6 percent a year ago. Gasoline supply problems, rising prices and the accompaning decline in the rate of increase for the number of miles driven by Texans had a direct impact on this tax source. Levied at flat rates of 5 cents per gallon on gasoline and 6.5 cents per gallon on diesel fuel and LPG, motor fuel taxes reflect directly any changes in gasoline and diesel fuel consumption in the State.

Natural gas production tax revenue showed an increase of 7.1 in 1979, following a 9.2 percent gain in 1978. This contrasts sharply with the 30-40 percent annual rates of change shown for 1976 and 1977. Since that period the Texas natural gas market has stabilized singificantly, with price increases continuing to offset declining production for this tax which is assessed at 7.5 percent of market value.

Oil production and regulation taxes showed a 6.7 percent hike in 1979, after recording a 0.7 percent decrease in 1977 and only a 2.0 percent gain in 1978. this reflects OPEC actions which resulted in higher composite prices. Also, phased decontrol of oil prices began to take effect in June, 1979.

Dan Casey

TABLE 2

ANNUAL PERCENTAGE CHANGE IN STATE REVENUES FISCAL YEARS 1976-1979

Source	Percent Change from Prior Year			
	1976	1977	1978	1979
Sales Tax	16.7	14.3	19.8	7.4
Natural Gas Production Tax	40.5	30.1	9.2	7.1
Motor Fuel Taxes	8.1	3.9	7.6	2.5
Oil Production Taxes	6.6	- 0.7	2.0	6.7
Motor Vehicles Sales Tax	33.5	21.3	22.2	8.0
TOTAL TAX COLLECTION	16.2	12.9	13.8	7.1
Federal Funds	16.5	4.1	10.2	12.1

Rules

continued from page 9

tax is not due upon Texas registration of a motor vehicle if the registration is necessitated solely by the expiration of the vehicle's home-state registration or if the operator does not reside or do business in Texas. This amendment is a nonsubstantive revision. Rule effective August 24, 1979. No fiscal implications are expected to result.

.034 Exemption for Churches or Religious Societies. A motor vehicle which is designed to carry more than six passengers, is sold or used by a church or religious society, and is primarily (at least 80 percent) used for transportation to and from church or religious meetings is exempt from the motor vehicle sales and use tax. This rule has been amended to delete the definition of a "motor vehicle designed to carry more than six passengers" as a vehicle "with at least three seats as wide as the interior of the vehicle." Rule effective August 31, 1979. No significant fiscal implications are expected to result.

Rules continued on page 13

Tax Structures

continued from page 8

of tax base. The ten most populous states, among which Texas ranks third, accounted for 54 percent of personal income and 56 percent of total tax collections in the nation in 1978.[1]

Texas is the only one of these states which does not impose any type of income tax--the state most dependent on income taxes is Massachusetts. The table also shows Texas' four neighboring states. In general, the regional states rely on severance taxes on natural resources more heavily than most other states.

-Diane Schwartz

[1]*U.S. Bureau of the Census, **State Government Tax Collections in 1978** (Washington, D.C., 1979) pp. 7 and 11*

TABLE 3

PERCENTAGE DISTRIBUTION OF TAX REVENUES[1] BY TYPE OF TAX BASE SELECTED STATES, FISCAL YEAR 1978

State	Total	Consumption Taxes[2]	Income Taxes	Wealth Taxes[3]	Natural Resources Serverance Taxes
U.S. AVERAGE	100.0%	55.9%	37.8%	3.9%	2.4%
Arkansas	100.0	64.4	33.4	0.8	1.4
California	100.0	47.2	46.4	6.2	0.2
Florida	100.0	86.4	7.5	3.4	2.7
Illinois	100.0	60.6	36.6	2.8	---
Louisiana	100.0	51.1	20.1	3.6	25.2
Massachusetts	100.0	40.0	57.1	2.9	---
Michigan	100.0	45.7	50.9	3.2	0.2
New Jersey	100.0	53.6	37.0	9.4	---
New Mexico	100.0	64.4	11.7	3.4	20.5
New York	100.0	42.4	55.8	1.8	---
Ohio	100.0	62.0	31.9	6.0	0.1
Oklahoma	100.0	48.1	29.3	3.0	19.6
Pennsylvania	100.0	55.2	36.5	8.3	---
TEXAS	100.0	73.2	---	7.7	19.1

SOURCE: Calculated from U.S. Department of Commerce, Bureau of the Census, **State Government Tax Collections in 1978** (Washington, D.C., 1979) pp. 7-33

[1]Does not include licenses and fees. The Census Bureau also uses an unclassified category called "Other" which was omitted in calculating the values above. The miscellaneous taxes in this category represent less than .1 percent of all taxes.
[2]Includes documentary and stock transfer taxes.
[3]Includes corporation franchishe taxes.
[4]Not levied.

STATE REVENUES ABSTRACT

In August, state revenues were $1.03 billion, ending fiscal 1979 with a total of $9.38 billion. This is an increase of $748.4 million or 9 percent over fiscal 1978 receipts.

Tax collections for the month of August were $658.9 million. Of this amount $372.7 million was received from the sales tax. Tax collections as a whole for fiscal 1979 increased 7 percent and accounted for over $5 billion of total receipts. Sales tax receipts totaled slightly over $2.1 billion for the year.

Federal funds, which account for 24 percent of total revenues, have experienced a 12 percent increase above fiscal 1978. August federal receipts were $217.1 million with a yearly total of $2.28 billion.

Interest income was one of the fastest growing sources of state revenue, with a 23 percent rise in fiscal 1979. August receipts were $81.5 million, bringing the yearly total to $816.4 million.

STATE REVENUES[1]
(Amounts in Millions of Dollars)

	Monthly Revenues		Year-to-Date September 1978-August 1979			
Tax Collections by Major Tax	**August 1979**	**Percent of Total**	**Revenues**	**Percent of Total**	**Change From Last FY**	
Sales Tax	$ 372.7	57%	$2,174.3	40%	$+150.6	+ 7%
Natural Gas Production Tax	52.4	8	554.4	10	+ 36.6	+ 7
Motor Fuel Taxes	41.8	6	489.5	9	+ 11.8	+ 3
Oil Production Taxes	45.8	7	466.7	9	+ 29.5	+ 7
Motor Vehicle Sales Tax	38.9	6	433.3	8	+ 32.2	+ 8
Cigarette and Tobacco Taxes	28.5	4	309.8	6	+ 9.5	+ 3
Corporation Franchise Tax	3.7	1	293.8	5	+ 29.0	+11
Alcoholic Beverage Taxes	16.0	3	191.7	4	+ 19.1	+11
Insurance Companies Taxes	0.5	0	166.5	3	+ 19.0	+13
Utility Taxes[2]	27.7	4	103.7	2	+ 10.7	+12
Inheritance Tax	7.4	1	73.7	1	- 5.4	- 7
Ad Valorem (Property) Tax	4.6	1	49.2	1	+ 4.6	+10
Telephone Tax	13.0	2	52.4	1	+ 7.6	+17
Other Taxes[3]	6.0	1	41.8	1	+ 4.8	+13
TOTAL TAX COLLECTIONS[4]	$ 658.9	100%	$5,400.7	100%	$+359.5	+ 7%
Revenues by Source						
Tax Collections (Detail above)	$ 658.9	64%	$5,400.7	58%	$+359.5	+ 7%
Federal Funds	217.1	21	2,284.8	24	+247.1	+12
Licenses and Fees	33.3	3	395.3	4	- 10.4	- 3
Land Income: Rents, Royalties, Sales	32.1	3	380.1	4	- 25.1	- 6
Interest Income	81.5	8	816.4	9	+151.3	+23
Other Revenue Sources[5]	11.9	1	102.9	1	+ 22.9	+29
TOTAL REVENUES[4]	$1,034.8	100%	$9,380.2	100%	$+745.4	+ 9%

[1]Excludes some revenues not cleared through the Comptroller's Office
[2]Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax
[3]Includes the Hotel-Motel, Cement and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified
[4]Totals may not add due to rounding
[5]Patient Maintenance and Support Fees, Grants, Donations, and Miscellaneous Revenues

REVENUES BY PROGRAM CATEGORY ABSTRACT

Revenues from personal property--chiefly the sales tax--were the major source of state receipts in fiscal 1979. Receipts from personal property levies totaled $385.8 million in August, raising the year-end total to $2.3 billion. This category accounted for 25 percent of all state revenues.

The "Other" category includes items such as interest income and federal revenue sharing. August receipts under this category totaled $152.8 million. The fiscal 1979 amount was almost $1.6 billion, accounting for 17 percent of the total.

Income from natural resources--mineral production taxes, royalties and leases--totaled $132.7 million in August, resulting in year-end revenues of nearly $1.4 billion. The Natural Resources category represents 15 percent of total state receipts.

The Transportation category--motor fuels taxes, federal highway grants, and motor vehicle registration fees, among others--brought in $105.8 million in August. Year-end receipts were $1.2 billion, representing 13 percent of the state total.

REVENUES BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenues August 1979	Monthly Revenues Percent Of Total	Year-to-Date September 1978-August 1979 Revenues	Year-to-Date September 1978-August 1979 Percent Of Total
Transportation	$ 105.8	10%	$1,228.9	13%
Personal Property	385.8	37	2,300.0	25
Business Regulation	11.5	1	349.0	4
Insurance	0.8	0	173.2	2
Utilites	40.7	4	156.2	2
Alcoholic Beverages	16.1	2	192.1	2
Tobacco	28.5	3	309.7	3
Natural Resources	132.7	13	1,396.7	15
Agriculture	0.2	0	3.3	0
Parks and Wildlife	2.5	0	39.3	0
Education	57.4	6	547.9	6
Health	10.4	1	133.3	1
Welfare and MHMR	89.7	9	995.5	11
Other	152.8	15	$1,555.1	17
TOTAL REVENUES[2]	$1,034.8	100%	$9,380.2	100%

[1]Excludes some revenues not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

Rules

continued from page 10

CENTRAL ADMINISTRATION

Practice and Procedure. The Comptroller's Office has amended twenty of its Central Administration's 43 rules of practice and procedure. These amendments have been adopted to conform the rules with recently passed legislation and to clarify and improve them. Rules effective August 27, 1979. No significant fiscal implications are expected to result from these rules.

TAX ADMINISTRATION

Practice and Procedure. The Comptroller's Office has amended five of its Tax Administration's rules of practice and procedure (.006, .010, .027, .038, and .039). These amendments are being adopted in conjunction with the amendment of Central Administration's rules in order to provide the taxpaying public with a complete and coordinated set of rules. Emergency rules effective August 27, 1979. No significant fiscal implications are expected to result from these rules.

STATE EXPENDITURES BY OBJECT ABSTRACT

The largest object of state spending in August was salaries and wages, totaling $147 million, raising the fiscal 1979 total to $1.9 billion. This category increased 6 percent over last year, whereas overall expenditures exhibited a 9 percent increase.

Assistance and medical care for the needy accounted for $118.5 million of total August expenditures of $607.2 million. Capital outlays for highways, $69.6 million, and Foundation School Program grants, $65.7 million, were also major expenditures categories for the month.

Grants to higher education ($343.9 million) exhibited the greatest annual increase in fiscal 1979, 40 percent above a year ago. Other Public Education grants ($478.3 million) was also one of the fastest growing objects of state expenditures, with a rise of 28 percent.

In fiscal 1979, Foundation School Program grants were the largest object of state spending, accounting for over $2.1 billion. Salaries and wages were the second major object of spending, costing slightly more than $1.9 billion.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1978-August 1979			
	August 1979	Percent of Total	Expenditures	Percent of Total	Change From Last FY	
Salaries and Wages	$147.0	24%	$1,918.4	22%	$+115.1	+ 6%
Other Personal Sevices[2]	58.8	10	704.0	8	+123.6	+21
Consumable Supplies and Materials	18.6	3	211.9	2	+ 26.4	+14
Current and Recurrent Operating Expenses	35.8	6	372.3	4	+ 14.8	+ 4
Assistance and Medical Care for the Needy[3]	118.5	20	1,178.1	14	+152.6	+15
Foundation School Programs Grants	65.7	11	2,106.4	25	+ 51.9	+ 3
Other Public Education Grants	44.6	7	478.3	6	+103.4	+28
Grants to Higher Education	15.0	2	343.9	4	+ 97.6	+40
Other Grants[3]	11.4	2	293.2	3	+ 29.6	+11
Payment of Principal on Indebtedness	0	0	49.6	1	- 46.0	-48
Payment of Interest and Other Claims	0	0	57.4	1	+ 0.1	+ 0
Capital Outlay for Highways	69.6	11	615.3	7	+ 33.5	+ 6
Capital Outlay for Land and Buildings	10.3	2	125.3	1	+ 10.4	+ 9
Other Capital Outlay	11.8	2	156.8	2	+ 22.5	+17
TOTAL EXPENDITURES[4]	$607.2	100%	$8,610.9	100%	$+735.6	+ 9%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Now includes death benefit payments made by the State to the estate of state employees.
[3]Grants used to support public assistance activities have been transferred to the appropriate object categories. These adjustments are reflected in the monthly and year-to-date totals.
[4]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT

State expenditures totaled $607 million in August, raising fiscal 1979 disbursements to $8.6 billion. This represents a 9 percent increase above the $7.9 billion spent in 1978.

Education grants to school districts and support for higher education continue to be the major service provided by the State, accounting for 47 percent of all spending during fiscal 1979. August expenditures of $204.1 million boosted 1979 outlays for support of state and local education to $4 billion, a 9 percent increase above fiscal 1978.

Welfare spending is the second largest category of

Expenditures continued on page 16

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures: August 1979	Monthly Expenditures: Percent of Total	Year-to-Date September 1978-August 1979: Expenditures	Year-to-Date: Percent of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Depts.	$ 12.1	2%	$ 143.6	1%	$+ 3.7	+ 3%
Business Regulatory Comm.	4.3	1	51.5	1	+ 4.8	+ 10
Legislative	1.9	0	24.7	0	+ 6.1	+ 33
Judical	1.8	0	21.7	0	- 0.6	- 3
TOTAL	$ 20.2	3	$ 241.5	3	+ 14.0	+ 16
SERVICES						
Welfare[2]	$135.8	22%	$1,509.2	18%	$+244.5	+ 13%
Mental Health, State Homes and Corrections[2]	38.9	6	454.6	5	+ 24.6	+ 6
Health and Sanitation	8.1	1	137.7	2	+ 1.5	+ 1
Law Enforcement	7.6	1	90.3	1	+ 3.9	+ 4
TOTAL	$190.4	31	$2,191.8	26	$+274.5	+ 14
IMPROVEMENTS						
Highway Maintenance & Construction	$108.0	18%	$1,020.0	12%	$+ 97.6	+ 11%
Natural Resources	7.4	1	86.3	1	+ 4.9	+ 6
Parks and Monuments	4.8	1	48.4	1	+ 2.6	+ 6
TOTAL	$120.2	20	$1,154.7	13	$+105.1	+ 10
EDUCATION						
Support to State and Local Education	$204.1	34%	$4,004.4	47%	$+331.3	+ 10%
State Contribution to Teacher Retirement	26.4	4	323.0	4	- 7.8	- 2
TOTAL	$230.5	38	$4,327.5	50	$+323.5	+ 8
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others[3]	$ 21.1	4%	$ 293.2	3%	$- 41.6	- 12%
Payment of Public Debt	-0-	0	105.0	1	- 46.3	- 31
Social Security Contribution	16.9	3	195.5	2	+100.7	+106
State Contribution to Employee Retirements	7.5	1	89.3	1	+ 5.1	+ 6
Miscellaneous	0.5	0	12.2	0	+ 0.5	+ 4
TOTAL	$ 46.0	8	$ 695.3	8	$+ 18.5	+ 3
TOTAL EXPENDITURES[4]	$607.2	100%	$8,610.9	100%	$+735.6	+ 9%

[1]Excludes some expenditures not cleared through the Comptroller's Office.

[2]Grants used to support welfare and MHMR activities have been transferred to the appropriate functional categories. These adjustments are reflected in the monthly and year-to-date totals.

[3]Now includes death benefit payments made by the State to the estates of state employes.

[4]Totals may not add due to rounding.

Expenditures

continued from page 15

state expenditures. August welfare expenditures totaled $135.8 million, raising the fiscal 1979 total to $1.5 billion. This accounts for 18 percent of state expenditures and for a 13 percent increase over last year.

Highway maintenance and construction, the third largest category of state spending, totaled $108 million in August. Fiscal 1979 highway spending is $1.02 billion, 12 percent of all state expeditures. Highway expenditures are 11 percent above a year ago.

The fastest growing category of expenditures was the State's social security contributions, with a 106 percent increase in fiscal 1979. The primary reason for this increase is attributable to the State paying nearly all of each employee's contribution–5.85 percent up to $16,500. This measure was approved by the 65th Legislature. Social security contributions accounted for $195.5 million, only 2 percent of all spending during fiscal 1979.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]
(Amounts in Millions)

Year and month	Crude Oil		Natural Gas		Motor Fuel Intrastate	Cement	Cigarettes	Auto Sales
	Bbls.	Value	MMCF	Value	Gals.	Cwt.	Pkgs.	Net Value
1977								
January	95.9	$803.6	659.3	$504.2	748.9	10.2	118.6	$ 581.9
February	95.0	780.6	604.4	548.0	660.8	7.4	114.8	593.8
March	86.1	721.3	645.6	561.0	642.7	11.8	120.1	589.4
April	94.2	774.3	597.7	502.3	758.1	13.9	122.6	722.4
May	81.4	763.0	610.9	626.1	729.6	14.6	133.1	914.2
June	104.3	779.0	620.0	519.8	763.9	15.3	137.8	736.1
July	97.9	750.3	651.8	557.4	800.1	14.8	120.2	775.2
August	89.9	760.4	624.7	576.4	749.3	14.3	113.0	731.0
September	86.3	783.6	580.8	606.9	834.9	14.8	162.6	881.4
October	87.8	755.1	594.9	583.5	724.8	13.9	128.2	6[illegible]. 2
November	92.5	802.9	569.4	556.8	744.6	15.1	126.1	667.2
December	88.1	783.1	608.0	560.8	755.1	13.2	136.9	783.6
1978								
January	90.1	797.4	627.2	542.9	719.6	14.5	117.8	733.6
February	95.2	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	82.3	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	89.4	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	80.5	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	93.8	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	84.1	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	87.7	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	85.0	792.6	544.4	608.4	852.5	17.2	158.1	1,046.8
October	83.3	782.7	549.4	583.9	710.6	13.4	137.2	691.9
November	85.5	813.0	543.1	555.6	870.0	17.8	134.7	889.5
December	83.0	795.1	570.7	553.9	773.7	12.8	134.6	759.2
1979								
January	84.8	815.7	597.3	529.6	817.1	14.5	134.5	767.2
February	83.0	812.6	516.0	608.8	754.4	7.2	106.7	898.4
March	81.1	813.7	546.9	667.3	538.0	11.0	132.7	719.4
April	48.8	834.1	492.2	600.4	799.8	14.8	138.2	930.5
May	102.4	853.0	538.0	656.4	787.5	15.4	137.2	1,040.9
June	101.1	894.7	517.6	657.3	810.1	15.7	141.0	997.3
July	76.7	959.1	531.4	674.9	792.5	17.4	144.6	887.9
August	70.2	950.3	547.1e	694.8	750.6	14.6	113.3	912.3

[1]Estimates based on tax collections in months shown.
e - estimated

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Fiscal Notes

Bob Bullock, Comptroller of Public Accounts **Office of Planning and Research**

ISSUE 80: 1 January, 1980

STATE SPENDING: 1980-81

INTRODUCTION

House Bill 558, the general appropriations bill, was the major spending measure of the 66th Texas Legislature, which adjourned in May. This bill itemizes authorized spending for state agencies in fiscal years 1980 and 1981.[1]

In addition to the appropriations bill, several other bills were approved which authorized spending state funds for specific purposes. The public school education bill (S.B. 350) and additional funding for the Teacher Retirement System (H.B. 2083) are examples of these.

Unlike the spending bill passed by the 65th Legislature, a number of line items in H.B. 558 were vetoed by the Governor. These vetoes reduced state spending in several areas.

This article examines how state revenue will be spent during the next two years.

REVENUE

The Texas constitution limits the Legislature's spending authority to the amount of revenue anticipated for the biennium. This "pay-as-you-go" provision is intended to insure that state government will remain fiscally sound.

The Texas economy has grown steadily in the last few years. This growth has recently slowed along with the national economic slowdown, but total income is still expected to increase during the current biennium. The revenue estimate reflected in Table 1 was originally made in December, 1978 and updated in May, 1979. The estimated receipts shown reflect the "best guess" of future state income at that time.

Anticipated total revenue for 1980-81 is almost $21.9 billion. This is an increase of 26.5 percent over 1978-79 revenue of $17.3 billion. Of the total estimated income, tax collections account for more than 60 percent and federal funds another 25 percent.

State Taxes

Three major taxes account for 61 percent of total projected tax collections for the 1980-81 biennium. The sales, natural gas and oil production taxes are expected to be major income producers during the current biennium.

Sales tax revenue is expected to grow by 28.0 percent to nearly $5.4 billion for the biennium. The May, 1979 estimate of sales tax collections was $2.52 billion in 1980 and $2.86 billion in 1981.

The natural gas production tax is expected to generate almost $1.4 billion. This is a 26.6 percent increase over the 1978-79 biennium.

The oil production tax is expected to show a sizable 44 percent gain during the current biennium, rising to $603.4 million in 1980 and $698.4 million in 1981. President Carter's decontrol of oil prices is chiefly responsible for the brightened outlook in oil production tax receipts, which have experienced

Continued on page 2

[1]The state's fiscal year runs from September 1 thru August 31. Thus, fiscal year 1980 began on September 1, 1979. Unless otherwise specified, all of the years referred to in this article are fiscal years.

sluggish growth in recent years.

The other tax sources expected to exhibit substantial increases during the current biennium are the motor vehicle sales tax and utility taxes. It is anticipated that motor vehicle sales tax will show a 37.8 percent gain during 1980-81. At the time the May, 1979 estimate was made, it was assumed that sales of economy cars would increase as motorists replaced older, fuel-consuming vehicles.

Utility taxes should show a 36.4 percent gain during 1980-81, with collections rising to $124.9 million in 1980 and $143.3 million in 1981. Based on the gross receipts of electric, gas and water utilities, tax collections from this source are likely to grow as rates increase and services are expanded.

Federal Funds

A 28.0 percent increase is expected in federal funds received by the state during the current biennium. The 1981 estimate is slightly below that shown for 1980, because the General Revenue Sharing (GRS) program is scheduled to expire in September, 1980. While recent Congressional action suggests that the GRS program will be renewed, the allocations to state governments are still in doubt. State colleges and universities have been appropriated most of the GRS funds in recent years.

Land and Interest Income

Land income--principally oil and natural gas royalties from state-owned lands--is expected to show sizable gains during the current biennium. This non-tax revenue source is expected to grow by 48.8 percent above the 1978-79 biennium, with 1980 receipts of $543.4 million and 1981 receipts of $625.0 million. Decontrol of oil prices is the major factor accounting for this increase. Royalty income is divided between the Permanent University Fund and Permanent School Fund endowments, from which investment income supports the University of Texas and Texas A&M systems, as well as public elementary and secondary education. The interest income category reflects the additional earnings on investments that will result from the larger endowments, with an 18.9 percent increase expected for 1980-81.

EXPENDITURES

The appropriations bill passed by the 66th Texas Legislature authorized state spending of $20.3 billion during the 1980-81 biennium. The Governor vetoed $162.5 million of this amount. (A detailed discussion of the vetoed items is shown below.) Major bills passed separately appropriated an additional $1.07 billion.

Table 2 presents authorized expenditures for the major functional categories of state government. Vetoed items have been subtracted from the appropriations bill amounts. Rider items and other bills authorizing state spending have been added to the appropriate categories. Bills enacted by the 66th Legislature for fiscal 1979 have been added to the 1979 totals.

Administrative

This functional category includes the major executive departments of state government: the Governor's Office, Comptroller of Public Accounts, Attorney General, General Land Office, Secretary of State and other smaller agencies; all business regulatory agencies, including the Alcoholic Beverage Commission, Board of Insurance, Railroad Commission, and others; the Legislature; and the Judiciary. Appropriations for these agencies have risen 32 percent from $605.9 million in 1978-79 to $801.6 million for the current biennium. Most of this increase is in worker's compensation payments, disaster and emergency funds (H.B. 2235), implementation of the property tax relief amendment (mandating changes in property tax exemptions and valuation methods) and increases in the operating costs of state agencies.

Services

Included in this category are the Department of Human Resources, Texas Employment Commission, Department of Mental Health and Mental Retardation, Department of Corrections, Department of Health, University of Texas Cancer Research Center, Department of Public Safety, and many other smaller agencies with service orientations.

Total authorized spending for the Services category has increased to $5.7 billion, a 22 percent increase above the $4.7 billion approved for 1978-79. The Department of Human Resources (DHR) accounted for a large portion of this increase, with

medical services programs showing a 27 percent increase--from $1.67 billion in 1978-79 to $2.13 billion for 1980-81. Much of this increase results from higher payments to vendors for health services. Nearly two-thirds of the funding for DHR programs comes from federal sources.

Improvements

This functional category includes funds for the Texas Department of Highways and Public Transportation, various natural resource agencies (Agricultural Extension Service, Department of Water Resources, Agricultural Experiment Station, etc.), Parks and Wildlife Department, and other small state agencies involved in natural resources management.

Highway maintenance and construction comprises the bulk of this category, with outlays of

Continued on page 4

TABLE 1
STATE REVENUE, FISCAL YEARS 1978-1981
(Millions of Dollars)
(Funds 1-899)

	FY 1978 (actual)	FY 1979 (actual)	Percent Change FY 1978-79 Over FY 1976-77	FY 1980 (est.)	FY 1981 (est.)	Percent Change FY 1980-81 Over FY 1978-79
Revenue by Source:						
Tax Collections (detail below)	$5,041.2	$5,400.7	25.3%	$ 6,220.0	$ 6,967.3	26.3%
Federal Funding	2,037.7	2,284.9	19.3	2,815.9	2,715.7	28.0
Licenses and Fees	405.6	395.3	12.4	437.8	458.6	11.9
Land Income: Rent, Royalties, Sales	405.1	380.0	33.6	543.4	625.0	48.8
Interest Income	339.5	423.1	48.5	427.8	478.9	18.9
Other Revenue Sources	75.6	89.1	- 6.0	85.9	80.2	0.9
TOTAL REVENUE[1]	$8,304.7	$8,973.1	23.9%	$10,530.8	$11,325.7	26.5%
Tax Collections by Major Tax:						
Sales Tax	$2,023.7	$2,174.3	32.5%	$2,516.6	$2,857.3	28.0%
Natural Gas Production Tax	517.8	554.4	24.7	641.8	715.5	26.6
Motor Fuels Taxes	477.7	489.5	15.3	517.7	538.3	9.2
Oil Production and Regulation Taxes	437.2	466.7	3.7	603.4	698.4	44.0
Motor Vehicle Sales Tax	401.1	433.3	39.4	532.6	617.2	37.8
Cigarette & Tobacco Taxes	300.3	309.8	7.5	319.4	334.0	7.1
Corporation Franchise Tax	264.9	293.8	24.1	321.4	345.4	19.4
Alcoholic Beverage Taxes	172.6	191.7	78.9	212.3	235.9	23.0
Insurance Companies Taxes	147.4	166.5	41.1	171.4	192.4	15.9
Utility Taxes	93.0	103.7	41.8	124.9	143.5	36.4
Inheritance Tax	79.1	73.7	22.2	100.5	113.3	39.9
Telephone Tax	44.8	52.4	30.1	58.3	66.2	28.1
Ad Valorem (Property) Tax	44.6	49.2	18.1	52.3	57.2[2]	16.7
Other Taxes	37.0	41.8	-42.5	47.4	52.9	27.3
TOTAL TAX COLLECTIONS[1]	$5,041.2	$5,400.7	25.3%	$6,220.0	$6,967.3	26.3%

[1]Totals may not add due to rounding.
[2]At the time this estimate was prepared, the fate of the state ad valorem tax had not been decided. The reduced rate authorized by S.B. 621 will result in only a few hundred dollars in receipts during FY 1981.

STATE SPENDING: 1980-81

$1.29 billion approved for 1980 and $1.35 billion for 1981. These represent a 16 percent boost above authorized levels for the 1978-79 biennium.

House Bill 3 as enacted by the 65th Legislature guaranteed $750 million in 1979 dollars for highway construction. Three sources of revenue are "dedicated" for this purpose: motor fuel taxes, motor vehicle registration fees, and the sales tax on motor lubricants. If these sources do not generate enough revenue to meet the $750 million commitment, monies from the Omnibus Tax Clearance Fund are allocated to make up the difference. (The Omnibus Fund supports a number of state programs, principally education, teacher retirement, and medical assistance.)

During the 1978-79 biennium, Omnibus Fund receipts totaling $260.1 million were appropriated to achieve the guaranteed funding level. It is expected that the Omnibus "draw" for highways during 1980-81 will total $348.4 million, a 34 percent increase above the previous biennium.

Authorized spending in 1980-81 for the Improvements category is $3.1 billion, a 19 percent increase from the $2.6 billion authorized in 1978-79. Most of this increase is in highway spending as outlined above.

Education

Elementary and secondary education (principally the Texas Education Agency), higher education (state colleges and universities), and teacher retirement contributions (the Teacher Retirement System) are included in this category. Total educational spending authorized for 1980-81 is $10.82 billion, a 27 percent increase over the 1978-79 biennium level.

Clearly, education is the major "business" of state government. Half of each state dollar is spent to support public education in Texas.

Support for elementary and secondary education was authorized at $3.22 billion in 1980 and $3.37 billion in 1981. Authorized spending for the current biennium topped 1978-79 levels by 29 percent. This category includes nearly all expenditures by the Texas Education Agency, less some line items for occupational and vocational training. Foundation

Continued on page 6

Category	FY 1978
Administrative	
Executive Departments	$ 204.1
Business Regulatory Commissions	52.5
Legislative	23.4
Judicial	21.6
TOTAL[2]	$ 301.7
Services	
Welfare	$1,434.1
Mental Health, State Homes and Corrections	518.1
Health and Sanitation	229.1
Law Enforcement	137.9
TOTAL[2]	$2,319.1
Improvements	
Highway Maintenance and Construction	$1,222.6
Natural Resources	101.1
Parks and Monuments	57.2
TOTAL[2]	$1,380.9
Education	
Elementary and Secondary Education	$2,523.7
Higher Education	1,403.1
Contribution to Teacher Retirement	310.6
TOTAL[2]	$4,237.4
Other Expenditures	
Contribution to Employee Social Security	$ 99.1
Contribution to Employee Retirement	85.5
Miscellaneous[3]	7.4
TOTAL[2]	$ 191.9
TOTAL APPROPRIATIONS[2]	$8,431.0

[1]Includes money appropriated by 66th Texas Legislature for FY 1979.
[2]Totals may not add due to rounding.
[3]Includes an appropriation of almost $20 million per year in 1980 and 19

TABLE 2
STATE LEGISLATIVE APPROPRIATIONS
FISCAL YEARS 1978-81
(In Millions)

FY 1979[1]	1978-79 Biennium[1]	FY 1980	FY 1981	1980-81 Biennium	Percent Change 1980-81 Over 1978-79
$ 200.6	$ 404.7	$ 294.8	$ 265.7	$ 560.5	38%
51.2	103.7	64.4	62.8	127.2	23
29.3	52.8	24.6	30.4	55.0	4
23.0	44.6	28.9	30.0	58.9	32
$ 304.2	$ 605.9	$ 412.8	$ 388.8	$ 801.6	32%
$1,443.6	$ 2,877.7	$ 1,774.0	$ 1,861.7	$ 3,635.7	26%
532.3	1,050.3	635.2	583.2	1,218.4	16
235.3	464.3	271.9	291.7	563.6	21
140.6	278.5	144.3	151.6	295.9	6
$2,351.7	$ 4,670.9	$ 2,825.5	$ 2,888.1	$ 5,713.6	22%
$1,062.8	$ 2,285.4	$ 1,294.3	$ 1,350.2	$ 2,644.5	16%
102.8	203.9	131.9	129.6	261.5	28
59.4	116.7	112.9	72.4	185.3	59
$1,225.1	$ 2,606.0	$ 1,539.0	$ 1,552.3	$ 3,091.3	19%
$2,597.9	$ 5,121.6	$ 3,218.3	$ 3,371.3	$ 6,589.7	29%
1,368.4	2,771.5	1,600.0	1,594.4	3,194.3	15
336.1	646.7	565.9	465.1	1,031.0	59
$4,302.4	$ 8,539.8	$ 5,384.2	$ 5,430.8	$10,815.0	27%
$ 217.2	$ 316.3	$ 228.8	$ 258.3	$ 487.1	54%
91.5	177.0	133.6	112.1	245.7	39
5.3	12.7	22.1	23.3	45.3	257
$ 314.0	$ 506.0	$ 384.5	$ 393.7	$ 778.1	54%
$8,497.4	$16,928.6	$10,546.0	$10,653.7	$21,199.6	25%

for longevity pay for state employees authorized by H.B. 454.

STATE SPENDING: 1980-81

School Program grants accounted for authorized spending of $4.53 billion, two-thirds of the public education total. In addition, S.B. 350 made general revenue appropriations for 1980-81 of $629.8 million and $220 million, respectively, accounting for another 13 percent of the category total.

Spending of $3.19 billion for higher education during 1980-81 was authorized by the 66th Legislature, a 15 percent increase above the previous two-year period. This includes appropriations for the state's colleges and universities, junior college grant programs, and occupational and other education programs not shown elsewhere. Most of these programs are funded from the General Revenue Fund, as well as with federal General Revenue Sharing grants.

The Teacher Retirement Program will receive a sizable increase in state contributions (59 percent) above 1978-79 levels during the coming biennium. Both H.B. 2083 and S.B. 350 authorized additional state contributions to the Teacher Retirement System. H.B. 2083 provided for increased benefit

TABLE 3
GOVERNOR'S VETO MESSAGE
H.B. 558
(In Thousands)

	FY 1980	FY 1981	FY 1980-81 Biennium
Administrative			
Executive Departments	$34,749.8	$ 2,628.4	$ 37,378.1
Business Regulatory Commissions	620.0	3,699.9	4,319.9
Legislative	—	—	—
Judicial	1,298.3	1,380.4	2,678.7
TOTAL[1]	$36,668.1	$ 7,708.6	$ 44,376.7
Services			
Welfare	$ 360.0	$ 370.0	$ 730.0
Mental Health, State Homes and Corrections	13,303.1	30,702.5	44,005.6
Health and Sanitation	205.6	208.0	413.7
Law Enforcement	—	—	—
TOTAL[1]	$13,868.7	$31,280.5	$ 45,149.2
Improvements			
Highway Maintenance and Construction	$15,000.0	$12,376.4	$ 27,376.4
Natural Resources	937.0	1,074.5	2,011.5
Parks and Monuments	100.0	50.0	150.0
TOTAL[1]	$16,037.0	$13,500.9	$ 29,537.8
Education			
Elementary and Secondary Education	$ —	$ —	$ —
Higher Education	27,988.2	15,418.6	43,406.8
Contribution to Teacher Retirement	—	—	—
TOTAL[1]	$27,988.2	$15,418.6	$ 43,406.8
TOTAL VETOED[1]	$94,562.0	$67,908.6	$162,470.6

[1]Totals may not add due to rounding.

payments to current beneficiaries.

Other Expenditures

This functional category includes various retirement system contributions for state employees and other miscellaneous expenses. Total authorized spending for the category is $778.1 million, a 54 percent increase over 1978-79. (State payment of most of each employee's social security costs began in 1979. Increased expenditures for these payments account for a large part of the 1980-81 increase.)

VETOED ITEMS

In his veto message of June 14, 1979, the Governor struck $252.5 million in items from the appropriations bill forwarded to him by the Legislature. An Attorney General's opinion disallowed a $40 million veto of a rider item which provided for construction of new office space for the Department of Human Resources. (The building is to be financed with federal funds.) Also overturned by the Attorney General was the veto of the $50 million College Building Fund.

Table 3 outlines the major functional categories from which items were vetoed. The Services, Administrative, and Higher Education categories each accounted for about 27 percent of the vetoed items. Most of the vetoes in the Services (mental health, state homes, and corrections) category were for remodeling and construction projects. The Executive departments included in the Administrative category recorded vetoes for an office building proposed by the General Services and Purchasing Agency, office space rental and funds for administering S.B. 643 (the tax exemption for alcohol used in motor fuels - gasahol), which didn't pass. Most of the Higher Education vetoes were for remodeling or construction projects, followed by funding for various bureaus, institutes and special programs. Other vetoed items were generally for repairing, remodeling, or construction of state buildings, and funding of special programs and bills mentioned in the appropriations bill which didn't pass during the session.

SUMMARY

Total state spending authorized by the 66th Legislature for the 1980-81 biennium is more than $21 billion. While the Governor vetoed a number of line item appropriations--principally new construction and improvements--this action had little effect on total appropriations, which grew by 25 percent over the 1978-79 biennium.

--Carolyn Parks, Dan Casey and Diane Schwartz

COLLECTING THE NATURAL GAS PRODUCTION TAX

The natural gas production tax ranks second only to the sales tax in importance in the Texas tax structure, bringing in more than $554 million last year. The tax rate is 7.5 percent of the market value of natural gas produced in the state when it is first sold.

The tax may be collected from either the producer or the first purchaser of the gas, as arranged by contract between the two. Both the producer and first purchaser must submit monthly tax reports to the Comptroller by the 20th day of the second month following actual production. The Comptroller's Office uses both reports to conduct an automated cross-check of the information reported by producers and purchasers.

There are two types of exemptions from the gas production tax: exemptions for certain uses of gas and exemptions for some royalty interests. Unless sold for these purposes, gas which is produced from oil wells with oil and is lawfully vented or flared, injected back into the earth, or used to lift oil is exempt from the production tax. Some governmental units are exempt from paying their portion of the tax if they own interest in any natural gas production. These include: cities, towns, villages, counties, school districts, and public colleges and universities within Texas and political subdivisions of the federal government.

Raw natural gas must go through some processing before it can be sold as the product burned as a fuel. Liquids called condensate are obtained from gas by running it through a separator. Condensate is taxed at the oil

Continued on page 8

COLLECTING THE NATURAL GAS PRODUCTION TAX

production tax rate--4.6 percent of value--and is used in making diesel oils and motor fuel. Additional liquid hydrocarbons may be obtained from gas by refrigeration, absorption or other mechanical means. These products are taxed at the gas rate.

Since the production tax is based on market value, there are numerous provisions in the law for determining the taxable market value. For instance, if gas is sold for cash, the market value is computed from the producer's gross cash receipts. However, marketing costs--those incurred in getting the gas from the well to the market--are deductible. Some of these costs include those for compressing, dehydrating, sweetening, and delivering the gas as well as costs of operating the marketing facility. Marketing costs do not include those incurred in actually producing the gas or separating the condensate.

One-half of one percent of the proceeds from the natural gas tax are set aside for use by the Comptroller in financing administration and enforcement. Part of the enforcement function includes auditing producers and purchasers to verify reports. The largest producers are audited at least once every five years. Routine audits are made of all other producers based on random selection or if there are discrepancies between producer and purchaser reports.

--Diane Schwartz

CLASSIFIED PROPERTY TAX SYSTEMS

Over the past few years, there has been a growing disenchantment with property taxes. Spiraling inflation has sent property values skyrocketing throughout the country, and the ad valorem or property tax, which is based on property value, has ridden along on the ascent.

Growing public resentment has prompted a reexamination of the tax and its role in public finance. The result has been a number of proposed changes to the traditional basis of levying the tax. Of these, California's Proposition 13 is the most notable. However, since the 1960s, all 50 states have modified the property tax in an effort to reform perceived tax inequities or to provide tax relief to certain classes of taxpayers.

One type of modification is the classified property tax. Under a classified property tax system, different classes of property--residential, commercial, agricultural--are taxed at either different percentages of market value or at different tax rates. In either case, the distinguishing feature of such a system is that the effective tax rate--the tax on a piece of property as a percentage of its market value--varies for different types of property. Thus, the classified property tax stands in marked contrast to the more common uniform tax under which the effective tax rate is the same for all types of property--by law, if not always in fact.

How Classified Systems Work

The most common way of implementing a classified property tax is to assign different assessment ratios (the ratio of assessed value to market value) to various classes and then tax the assessed value of each class at the same rate.

Take, for example, two pieces of property--one residential and one commercial--each with a market value of $100,000. Property A, the residential property, is taxed at an assessment ratio of 15 percent, giving an assessed value of $15,000:

$100,000 x 15% = $15,000 assessed value

On the other hand, Property B, classified as commercial, is taxed at an assessment ratio of 50 percent, producing an assessed value of $50,000:

$100,000 x 50% = $50,000 assessed value

A common tax rate of $1.00 per $100 of assessed value applied to both properties yields very different tax liabilities, even though their true market value is the same:

Property A $15,000 ÷ 100 x $1.00 = $150 tax
Property B $50,000 ÷ 100 x $1.00 = $500 tax

The second way of classifying property, used in West Virginia and the District of Columbia, is to assess all classes at the same ratio but apply different tax rates to the various classes. Returning to the earlier example, assume that both Property A and Property B are assessed at 100 percent of market value or $100,000. However, the residential property pays a tax rate of 15 cents per $100 of valuation, while the commercial property is taxed at 50 cents per $100 of value. The result again is very different tax liabilities for the properties:

Property A $100,000 ÷ 100 x $.15 = $150 tax
Property B $100,000 ÷ 100 x $.50 = $500 tax

The advantage of classifying by different assessment ratios is that it permits a state or locality to fix the relative tax relationships among classes. Annual revenue requirements can then be met by adjusting a single tax rate up or down.

Under this approach, not all classes of property can be taxed at their appraised values. If the assessment ratios are different for each class, only one class can be taxed at full market value. The primary advantage of the West Virginia and District of Columbia method of tax rate classification is that it permits full-value assessments.

Regardless of how they are implemented, the various classes in a classified system are defined by use. Thus, for example, a simple system could distinguish between only two classes: residential and commercial. Most states, however, have adopted more complex systems.

Existing Systems

Classification is not a new idea. In the years following the Civil War, states began taxing intangibles--stocks, bonds, etc.--at lower rates than other property in an effort to increase compliance. The classification of real property was first introduced in Minnesota in 1913.

Despite this history, the classified property tax has remained a fairly limited phenomenon. For many years, only Minnesota, Montana and West Virginia had classified systems. Beginning in the late 1960's, however, there was an upswing of interest in the approach. Since 1967, six states--Arizona, Alabama, Tennessee, South Carolina, Louisiana and Massachusetts--and the District of Columbia have adopted classified systems. In addition, Illinois amended its constitution in 1971 to allow large counties to adopt classified systems and, in 1973, Cook County did so. More recently, classification proposals have been considered in California, Ohio and New York.

The most elaborate classification system is found in Minnesota. The original Minnesota law provided for four classes of property: iron ore (50 percent of full value); household goods (25 percent of full value); livestock (33-1/3 percent of full value); and all other property (40 percent of value).

Over the years, though, the Minnesota system has evolved into an intricate set of classes, sub-classes and exemptions. Today there are over 20 classes of property with assessment levels ranging from 5 to 50 percent. In general, timber, agricultural and residential properties are assessed at lower rates than other property types.

Most states, though, employ less than a half dozen categories. For example, Alabama has three classifications and Louisiana only two--residential and agricultural property (10 percent) and all other property (15 percent). Arizona is more typical with five basic categories: owner-occupied residential property (15 percent); farm property (18 percent); commercial, industrial, and property leased or rented for residential use (27 percent); utility property (50 percent); and mining, railroad, private

Continued on page 10

TABLE 1
CLASSIFIED PROPERTY TAX SYSTEMS BY STATE[1]
Assessments as a Percent of Market Value

	Year Adopted	Agricultural	Commercial	Oil/ Mineral	Residential	Utility
Minnesota	1913	33-1/3%[2]	43%	48½-50%[3]	40%[4]	43%
Montana	1919	30	30[5]	100	30[6]	40
Arizona	1967	18	27	60-100[7]	15	50
Alabama	1972	15	25	25	15	30
Tennessee	1973	25	40	40	25	55
South Carolina	1975	4	6-9.5[8]	6	2.5-4[9]	10
Louisiana	1978	10[10]	15[11]	15	10	15
Massachusetts	1979[12]	25	50-55[13]	50-55[14]	40	55

*SOURCES: Commerce Clearing House, **State Tax Guide**, 1979; Massachusetts Department of Revenue.*

CLASSIFIED PROPERTY TAX SYSTEMS

car, and flight property (60 percent). Producing oil and gas interests are assessed at 100 percent of full cash value.

Assessment ratios for different types of property in various states are shown in Table 1. As the table illustrates, a common feature of all current systems is that agricultural and residential property typically constitute the most favored classes, while commercial and industrial properties comprise the least favored--and most heavily taxed--classes.

Although homeowners have been the chief beneficiaries of classification, tax relief has not been the basic motive behind the adoption of a classified property tax. Classification has occurred as a result of legal challenges to existing de facto classification practices. That is, certain types of property were already being taxed at lower rates, whether through inequitable appraisal practices or legislative intent, even though the law dictated uniformity. Faced with major reforms in their property tax systems, classified property tax states simply chose to give a legal foundation to the status quo.

In Arizona, for example, property tax classification resulted from a 1960 suit by the Southern Pacific Railroad, challenging the state's "discriminatory" assessment of railroad and utility properties. Faced with reassessment, which would bring all classes of property closer together, the legislature adopted a classified property tax bill.

Similarly, the Louisiana system, which took effect in 1978, was the result of de facto practices dating from policies adopted during the governorship of the late Huey Long, which heavily favored residential over other classes of property.

The classified tax systems in at least seven states--South Carolina, Alabama, Arizona, Tennessee, Illinois, Louisiana and to some extent Minnesota--resulted directly from the legalization of existing de facto practices.

Because of this history, classification of real property has acquired a somewhat tarnished image. Many critics view the approach as a way of legitimizing unequal tax administration and as political tinkering with the tax system.

Advantages and Disadvantages

The primary advantage of a classified property tax system is the flexibility with which tax burdens

TABLE 1 ***Continued***

[1] Since the classified systems in West Virginia and the District of Columbia are based on different tax rates rather than assessment ratios, they are not included in this table.

West Virginia's system uses tax rate limits per $100 of assessed valuation. There are four basic categories: agricultural-related personal property can be taxed at no more than $.50 per $100 of assessed valuation; most residential and farm property can be taxed to a maximum of $1.00; commercial property in rural areas has a rate limit of $1.50; while urban commercial property cannot be taxed beyond $2.00.

The District of Columbia uses tax rate limits per $100 of assessed valuation. There are three categories: owner-occupied residential property can be taxed at no more than $1.22 per $100 of assessed valuation, rental residential property is taxed at $1.54; and all other property is taxed at a $1.83 rate.

[2] In Minnesota, agricultural property is assessed at 20 percent for the first $12,000 of market value, and the excess at 33-1/3 percent.

[3] While most minerals are assessed at 50 percent, low-grade iron ore is assessed at percentages ranging from 48½-50 percent.

[4] For paraplegic veterans and the blind the first $24,000 of market value is assessed at 5 percent, the excess at 40 percent. Housing for the elderly or for low-income families (defined as homes financed by Direct Federal Loan or Federally Insured Loan (Title II)) is assessed at 5 percent of market value in areas of 10,000 population or less and 20 percent of market value in the rest of the state.

[5] In Montana, real estate owned by a new industry during its first three years of operation is taxed at 7 percent.

[6] For the elderly, the first $17,500 of market value is assessed at 15 percent.

[7] The higher rate applies to producing oil and gas properties only.

[8] The higher rate applies to transportation companies only.

[9] Residential property is to be assessed at not less than 2½ percent nor more than 4 percent. After 4 years the assessment ratio is 4 percent.

[10] Louisiana assesses agricultural property on the basis of use value.

[11] New manufacturing establishments are totally exempt for up to 10 years.

[12] The Massachusetts classified property tax has not yet been implemented pending the outcome of a court challenge to the system.

[13] Commercial property is assessed at 50 percent of market value, while industrial property is assessed at 55 percent.

[14] Oil and mineral properties will be assessed at either the 50 percent commercial or 55 percent industrial ratios.

can be shifted between taxpayers. Adjustments in either the assessment ratios or tax rates upon different types of property can easily provide tax relief to homeowners, the elderly, farmers and ranchers, or any other category of property owner.

However, decreasing the burden of taxation on one type of property necessarily increases the burden on other classes. Generally, the states with classified property tax structures assume as a matter of policy that commercial property should shoulder a greater portion of the total tax burden. A major criticism of the system is that it is said to discourage commerce and industry from entering a state or expanding current facilities. The actual effect that differential tax rates have on locational decisions depends on: (1) the overall effective tax rate (i.e., the extent to which the state or locality relies upon the property tax); and (2) the extent to which an industry relies upon property taxation as a factor in

Continued on page 12

its location decision-making.

A second argument in favor of classification is that it can recognize differences in the need for services and the ability to pay among different types of property. For example, some industries may require specialized fire or police protection services or above average outlays for highway access, which might justify higher taxes.

Finally, classification can be used to distribute tax liability among income and non-income producing property. It can also be used to preserve open space and farmland from urban encroachment by reducing the assessment ratio and, thereby, the tax liability on rural land.

On the negative side, classification is a more complex process to administer. The enumeration of various property classifications compounds the amount of record keeping that must be undertaken. Assessment has always been a subjective matter and becomes even more subjective as assessors attempt to distinguish among shadings of property type.

Another persistent criticism of classified systems is that they become increasingly complex over time, as more and more classes are added--usually for political, rather than economic, reasons. Based on the experience of Minnesota and some of the other states, it is extremely easy to add another class. Thus, the system may eventually bear little resemblance to the original concept and much of the tax base may be eroded by special interests.

Finally, while proponents suggest that classification can redistribute the burden of taxes from homeowners to businesses or poor to rich, there are several factors at play which limit such benefits. First, businesses are likely to pass on any tax increase in the form of higher prices, and the end result may have an even more regressive impact on consumers. Secondly, while a split roll can distinguish among property classes, it cannot distinguish among different types of property owners. Although circuit-breaker programs in a number of states link property tax relief to personal income taxes, it is difficult to refine a classification scheme in such a way as to target tax relief to people in specific income or taxpaying circumstances.

The Situation in Texas

The Texas constitution requires uniformity in the taxation of all property. In practice, however, non-uniform property tax classification has existed in many parts of the state for a number of years. Figure 1, drawn from data obtained from the School Tax Assessment Practices Board (STAPB)[1], indicates how the ratio of assessed value to market value (as estimated by STAPB) varies among the major categories of real property as assessed by school districts. The figures are for the state as a whole and do not reflect widely varying practices among jurisdictions. For example, appraisal practices in some local units result in commercial property being valued below residential property in order to encourage business and industrial development. The figures do show that on the average, agricultural land is given a considerable tax break, residential property is assessed lower than commercial property, and property which is geologically or economically captive (mineral reserves) is the most strictly assessed.

The frequency with which property is revalued has also contributed to de facto classification in Texas. The Texas Research League, in a 1977 study, found that revaluation of different types of property occurred at widely varying intervals. These findings are shown in Figure 2 and they suggest that Texas oil and gas land is often revalued annually, generally by private firms on contract to the local assessor. Residential property is, on the average, revalued every 5 years and may not be revalued for 20 years or more in some jurisdictions. The result is that oil and gas lands and other large commercial properties often pay taxes based on current property values while other types of property pay on the value of the property as measured 5 or more years earlier.

Legislative Response

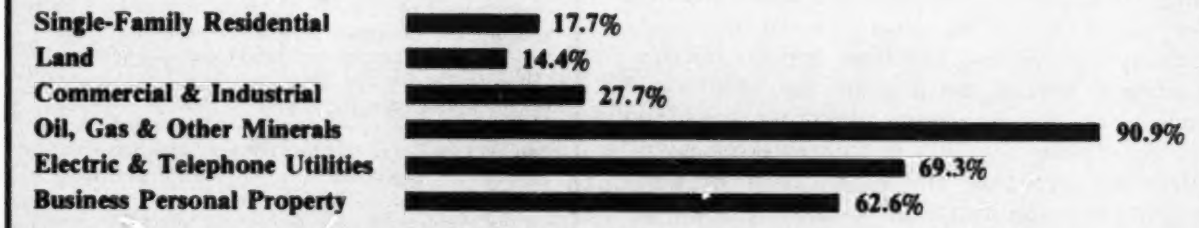
These de facto practices have been a source of controversy for many years. Texas' response to the growing disenchantment with and public resentment of the property tax and its administration was the opposite of institutionalizing

[1]On January 1, 1980, the STAPB will assume added responsibilities and duties under a new name, the State Property Tax Board.

FIGURE 1
LOCAL ASSESSED VALUE AS A PERCENTAGE OF FULL MARKET VALUE (1979)

SOURCE: School Tax Assessment Practices Board.

FIGURE 2
PERCENTAGE OF PROPERTY REVALUED IN 1975 AMONG DIFFERENT CLASSES



*SOURCE: Texas Research League, **Assessment Practices of Texas School Districts,** July, 1977, p. 5.*

de facto classification. The Texas Legislature executed a major overhaul of the property tax system earlier this year.

The 66th Legislature passed two bills relating to property taxation: (1) House Bill 1060 which implemented the Tax Relief Amendment approved by the voters in November, 1978; and (2) Senate Bill 621 which recodified the property tax laws and made significant changes in property tax administration.

The legislation effectively eliminates the state property tax. After January 1, 1980, the state will use an assessment ratio of .0001 percent of appraised value and, as such, ad valorem tax collections will be virtually nonexistent. This action is of minor consequence for the state's overall fiscal outlook. The property tax has not been a significant source of state tax revenue since World War II. In recent years, the tax has accounted for less than one percent of total tax collections ($49.2 million in fiscal 1979). However, it has been dedicated to the payment of college building bonds, making its abolition a concern to the administrators and governing bodies of the state's colleges and universities.

Senate Bill 621 should erase virtually all existing de facto classification practices. Beginning in 1980, the law will require that all property be assessed at full market value and that all parcels be revalued at least every five years.

Continued on page 14

CLASSIFIED PROPERTY TAX SYSTEMS

There will be, however, one major exception to uniform property taxation. H.B. 1060 will permit agricultural property to be valued on the basis of productivity. Determination of productivity value involves capitalizing a net income figure. This is based on the theory that the land owner is receiving a certain percentage return on his or her investment. This type of tax will discount non-agricultural factors influencing market value such as proximity to urban areas.

Many of the states with classification programs have used that practice to preserve open space and farmland from urban encroachment by reducing the assessment ratio and, thereby, tax liability on rural land.

Summary

The classified property tax is not a recent innovation. The classification of real property was first introduced in Minnesota in 1913. Over the next 50 years the concept spread to only two other states. Since 1967, however, six additional states and the District of Columbia have enacted classified property tax systems. The basic impetus for this movement toward classification has been legal challenges to de facto systems administered by local officials in states with little uniform enforcement of assessment standards. The Texas experience with property tax administration has also been one in which a certain amount of de facto classification of property has occurred. However, the Texas response has been to: (1) effectively eliminate the state's property tax; (2) require assessment at full market value and reassessment at least once every five years; and (3) tax agricultural land on the basis of productivity value rather than market value.

A classified property tax is one way to achieve tax policy goals. It can be used to shift the relative tax burden between residential and commercial property, preserve open space, give tax breaks to the elderly or handicapped and so on, but it is by no means the only tool that can be used to achieve such ends.

--Howard Friedman

PROPOSITION 4: A SPENDING LID?

On November 6, California voters clamped a lid on the cost of government at every level--state, county, city, school district, and special district. By a wide margin they approved an amendment to the state's constitution that will fix state and local spending at 1978-79 levels, adjusted for inflation and population growth.

The amendment, commonly referred to as Proposition 4, was the brainchild of Paul Gann, the lesser-known partner of the Jarvis-Gann political team which rocked the nation last year with the state property tax limitation measure known as Proposition 13.

Proposition 4 goes several steps beyond the governmental spending limits that have been enacted in Texas (H.B. 1060), Arizona, Michigan and Tennessee over the past year. The amendment requires both state and local governments to limit total expenditure increases to the growth rate of per capita personal income in California or the consumer price index, whichever is lower. Additionally, the state must fund the cost of any new programs or increases in services that the legislature requires local governments to perform. The measure also calls for all surplus funds to be returned to taxpayers through lower tax and fee schedules. Proposition 4 allows for the spending limits to be exceeded in an emergency, but "appropriation limits in the following three years must be reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency."

Proposition 4 has been dubbed the "Spirit of 13" by its supporters who see its success as generating new support for the campaign for a constitutional amendment which would place a ceiling on federal spending.

--Howard Friedman

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555. The following rules have been recently adopted.

BUSINESS TAX

.001 Franchise Tax Reports and Payments. This rule has been amended to comply with recent legislative changes. The initial franchise tax deposit of $100 is due prior to a corporation's

REVENUE BY PROGRAM CATEGORY ABSTRACT

Revenue from the different areas of state activity is shown in the accompanying table. Personal Property, which includes the sales, inheritance and property taxes, was the largest category during the last fiscal year. For the first month of fiscal year 1980, the Personal Property category brought in $90.5 million, accounting for 14 percent of all revenue thus far. This represented an increase of 7 percent above last September.

The Natural Resources category accounted for $98.7 million during September, 16 percent of total revenues. This group includes the oil, gas and sulphur production taxes, as well as oil and gas royalties, leases and land sales. September revenues from Natural Resources declined by $20.2 million or 17 percent from the same period a year ago. However, substantial revenue growth is expected for these sources during fiscal 1980.

Twenty-nine percent of the revenues thus far are from the miscellaneous sources in the "Other" category. September receipts totaled $184.2 million--highest category during the month. This category increased $38.2 million or 26 percent from a year ago. Interest income from corporate securities and state and local deposits accounted for most of this increase, along with sizable receipts for federal earned credits.

Welfare and MHMR receipts--principally federal grants--totaled $85.7 million in September. These accounted for 14 percent of all state receipts, an increase of $52.4 million from last year. Again, it is not expected that this increase is indicative of total receipts for this category during fiscal 1980.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

	Monthly Revenues		Year-to-Date September 1979			
Category	September 1979	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Transportation	$ 78.1	12%	$ 78.1	12%	$-14.0	- 15%
Personal Property	90.5	14	90.5	14	+ 6.2	+ 7
Business Regulation	4.6	1	4.6	1	+ 1.0	+ 29
Insurance	0.3	0	0.3	0	- 1.8	- 84
Utilities	4.7	1	4.7	1	- 0.3	- 6
Alcoholic Beverages	17.5	3	17.5	3	+ 1.8	+ 11
Tobacco	24.4	4	24.4	4	+ 0.1	+ 0
Natural Resources	98.7	16	98.7	16	-20.2	- 17
Agriculture	0.2	0	0.2	0	+ 0	+ 0
Parks and Wildlife	1.9	0	1.9	0	- 0.5	- 21
Education	24.4	4	24.4	4	-11.3	- 32
Health	11.7	2	11.7	2	+ 4.0	+ 52
Welfare and MHMR	85.7	14	85.7	14	+52.4	+157
Other	184.2	29	184.2	29	+38.2	+ 26
TOTAL REVENUE[2]	$626.9	100%	$626.9	100%	$+55.5	+ 10%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

receipt of its charter or certificate of authority. After December 31, 1979, interest on delinquent taxes will accrue at seven percent per year. Rule effective October 19, 1979. No significant fiscal implications are expected to result from this rule.

.002 Optional Short-Form Report. A short-form annual franchise tax report may be filed by a corporation whose total assets are less than $1,000,000.

Continued on page 17

STATE REVENUE ABSTRACT

State revenue for September--the first month of fiscal 1980--totaled $626.9 million, representing an increase of $55.5 million or 10 percent above a year ago.

Tax collections contributed $259.9 million to September receipts. This amount is a $34.7 million or 12 percent decline from the same month last year. However, it is important to recognize that it takes several months for tax collection trends to emerge. The ebb and flow of state receipts is affected by things such as whether or not the accounting period ends on a weekday or during the weekend. These factors even out over a several-month period.

The sales tax grew by 9 percent above last year with September receipts of $84.9 million--33 percent of all tax dollars. Oil production taxes ($11 million) and motor fuel tax collections ($14.8 million) were considerably below those of a year ago, with decreases of 69 and 65 percent, respectively. However, oil production tax receipts are expected to increase significantly during fiscal 1980 as a result of oil price decontrol. Modest gains are anticipated for the motor fuels taxes as well.

Federal funds totaled $204.7 million in September, accounting for 33 percent of all receipts. This represented a 39 percent increase above the year-earlier period. As in the case of many of the other revenue sources though, federal grants are not expected to show such a sizable increase throughout fiscal 1980. Next month's revenue figures should serve as a better guide on how the state's fiscal picture will look this year.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

	Monthly Revenues		Year-to-Date September 1979			
	September 1979	Percent of Total	Revenue	Percent of Total	Change From Last FY	
Tax Collections by Major Tax						
Sales Tax	$ 84.9	33%	$ 84.9	33%	$+ 6.8	+ 9%
Natural Gas Production Tax	56.1	22	56.1	22	+ 10.8	+24
Motor Fuels Taxes	14.8	6	14.8	6	- 27.3	-65
Oil Production Taxes	11.0	4	11.0	4	- 25.1	-69
Motor Vehicle Sales Tax	38.8	15	38.8	15	+ 0.5	+ 1
Cigarette and Tobacco Taxes	24.4	9	24.4	9	+ 0.1	+ 0
Corporation Franchise Tax	2.6	1	2.6	1	+ 0.4	+18
Alcoholic Beverage Taxes	16.4	6	16.4	6	+ 1.5	+10
Insurance Companies Taxes	0.2	0	0.2	0	- 1.4	-89
Utility Taxes[2]	4.7	2	4.7	2	- 0.3	- 6
Inheritance Tax	4.7	2	4.7	2	- 0.6	-12
Ad Valorem (Property) Tax	0.2	0	0.2	0	- 0.2	-50
Telephone Tax	0	0	0	0	0	0
Other Taxes[3]	1.2	0	1.2	0	+ 0.2	+17
TOTAL TAX COLLECTIONS[4]	$259.9	100%	$259.9	100%	$- 34.7	-12%
Revenue by Source						
Tax Collections (detail above)	$259.9	41%	$259.9	41%	$- 34.7	-12%
Federal Funds	204.7	33	204.7	33	+ 57.2	+39
Interest Income	84.8	14	84.8	14	+ 30.5	+56
Licenses and Fees	36.6	6	36.6	6	+ 13.8	+61
Land Income: Rents, Royalties, Sales	32.2	5	32.2	5	- 11.3	-26
Other Revenue Sources[5]	8.8	1	8.8	1	+ 0.1	- 1
TOTAL REVENUE[4]	$626.9	100%	$626.9	100%	$+ 55.5	+10%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax.
[3]Includes the Hotel-Motel, Cement, and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4]Totals may not add due to rounding.
[5]Patient Maintenance and Support Fees, Grants, Donations, and Miscellaneous Revenues.

STATE EXPENDITURES BY OBJECT ABSTRACT

Foundation School Program Grants were the largest object of state spending in September, with disbursements of $251.9 million accounting for 27 percent of total expenditures. These grants exhibited a 49 percent hike over last year, an increase of $82.4 million. This sizable increase resulted for two reasons: (1) increased appropriations during the first year of the new biennium, and (2) a change in the grant formula which provides for larger payments to school districts during September and October.

Salaries and wages of state employees reached $167.7 million for the month. This represents an increase of $13.4 million or 9 percent over the same period last year.

Public assistance and medical care expenditures for needy Texans increased by 18 percent over last September. Disbursements for September totaled $117.4 million, an increase of $17.9 million over the same period last year.

Other Personal Services--retirement and social security costs, unemployment compensation benefits and consultants' fees--totaled $70.9 million in September. Thus far the fiscal 1980 total has exhibited an increase of $21.4 million or 43 percent. Part of this increase results because a portion of the September, 1978 social security increase was not recorded until the following month, exaggerating the percentage change.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

	Monthly Expenditures		Year-to-Date September 1979			
Object	September 1979	Percent of Total	Expenditures	Percent of Total	Change From Last FY	
Salaries and Wages	$167.7	18%	$ 167.7	18%	$+ 13.4	+ 9%
Other Personal Services	70.9	7	70.9	7	+ 21.4	+43
Consumable Supplies and Materials	19.4	2	19.4	2	+ 0.9	+ 5
Current and Recurring Operating Expenses	30.7	3	30.7	3	- 4.3	-12
Assistance and Medical Care for the Needy	117.4	12	117.4	12	+ 17.9	+18
Foundation School Program Grants	251.9	27	251.9	27	+ 82.4	+49
Other Public Education Grants	9.3	1	9.3	1	- 19.8	-68
Grants to Higher Education	139.3	15	139.3	15	- 27.8	-17
Other Grants	35.6	4	35.6	4	+ 8.1	+29
Payment of Principal on Indebtedness	1.0	0	1.0	0	0	0
Payment of Interest and Other Claims	1.8	0	1.8	0	+ 0.1	+ 6
Capital Outlay for Highways	84.7	9	84.7	9	+ 19.4	+30
Capital Outlay for Land and Buildings	9.0	1	9.0	1	- 0.1	- 1
Other Capital Outlay	11.1	1	11.1	1	- 8.8	-44
TOTAL EXPENDITURES[2]	$949.9	100%	$949.9	100%	$+102.7	+12%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

RECENT TAX RULES

Rule effective October 19, 1979. No significant fiscal implications are expected from this rule change.

.019 Initial Franchise Tax Deposits by First-Year Corporations. This rule has been amended to comply with recent legislative changes. In lieu of a minimum first-year franchise tax payment, an initial franchise tax deposit of $100 is required before charter issuance. The deposit is applied as a credit against the tax computed on the first-year franchise tax report. Rule effective October 19, 1979. No significant fiscal implications are expected.

Continued on page 19

STATE EXPENDITURES ABSTRACT

In September--the first month of fiscal 1980--state expenditures totaled $949.9 million. This is an increase of $102.7 million (12 percent) over the first month of last fiscal year.

Education, as in the past, continues to be the major function of state government, with slightly more than half of each state dollar spent to support state and local education. Educational outlays totaled $482.8 million in September, accounting for a 7 percent increase over the same time last year.

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures: September 1979	Monthly Expenditures: Percent of Total	Year-to-Date September 1979: Expenditures	Year-to-Date September 1979: Percent of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 15.4	2%	$ 15.4	2%	$+ 3.6	+ 30%
Business Regulatory Commissions	5.0	1	5.0	1	+ 0.2	+ 4
Legislative	2.0	0	2.0	0	+ 0.3	+ 21
Judicial	2.2	0	2.2	0	+ 0.4	+ 22
TOTAL	$ 24.5	3%	$ 24.5	3%	$+ 4.5	+ 22
SERVICES						
Welfare	$147.4	16%	$147.4	16%	$+ 10.5	+ 8%
Mental Health, State Homes and Corrections	39.4	4	39.4	4	+ 2.3	+ 6
Health and Sanitation	9.9	1	9.9	1	+ 1.5	+ 18
Law Enforcement	9.4	1	9.4	1	+ 1.9	+ 25
TOTAL	$206.0	22%	$206.0	22%	$+ 16.2	+ 9
IMPROVEMENTS						
Highway Maintenance & Construction	$125.7	13%	$125.7	13%	$+ 24.8	+ 25%
Natural Resources	7.8	1	7.8	1	+ 1.4	+ 22
Parks and Monuments	4.3	0	4.3	0	+ 0.3	+ 8
TOTAL	$137.8	14%	$137.8	14%	$+ 26.6	+ 24
EDUCATION						
Support to State and Local Education	$482.8	51%	$482.8	51%	$+ 30.4	+ 7%
State Contribution to Teacher Retirement	35.0	4	35.0	4	+ 7.3	+ 27
TOTAL	$517.8	55%	$517.8	55%	$+ 37.7	+ 8
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 35.6	4%	$ 35.6	4%	$+ 8.1	+ 29%
Payment of Public Debt	2.8	0	2.8	0	+ 0.1	+ 5%
Social Security Contribution	15.9	2	15.9	2	+ 8.5	+113
State Contribution to Employee Retirement	8.8	1	8.8	1	+ 1.0	+ 13
Miscellaneous	0.5	0	0.5	0	0	+ 0
TOTAL	$ 63.7	7%	$ 63.7	7%	$+ 17.6	+ 38
TOTAL EXPENDITURES[2]	$949.9	100%	$949.9	100%	$+102.7	+ 12%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES

Welfare spending, as in the past, is the second largest category of state spending with September disbursements of $147.4 million. This accounts for 16 percent of total state spending, and is an increase of $10.5 million or 8 percent above last fiscal year.

Highway maintenance and construction costs totaled $125.7 million in September, accounting for 13 percent of all state expenditures. Highway expenditures for September are 25 percent above a year ago.

Grants to political subdivisions have exhibited a 29 percent increase over last year. September outlays totaled $35.6 million, amounting to $8.1 million over a year ago.

The state's social security contribution--both the employer's share and the state-paid employee's portion at 5.85 percent up to $16,500 in salary--totaled $15.9 million in September. This represents a 113 percent increase above last year. However, part of the September, 1978 contribution was not recorded until the following month. Thus, a much more modest increase is anticipated during fiscal 1980 and will be reflected in next month's data.

RECENT TAX RULES

LOCAL SALES TAX

Rules .001, .004, .005, .007, and .009. Five rules relating to the imposition and administration of the local sales tax have been amended to implement recent legislative changes. These rules, adopted on an emergency basis in June (**Fiscal Notes,** August-September, 1979), became effective October 19, 1979. No fiscal impact is anticipated from rules .001 and .004. It is estimated that Rule .005 will produce approximately $5 million in additional tax, that Rule .007 will result in less than $1 million additional tax, and that Rule .009 will produce less than $1 million additional tax.

METROPOLITAN TRANSIT AUTHORITY SALES TAX

Rules .001, .004, .005, .007, and .009. Five rules relating to the imposition and administration of the metropolitan transit authority sales tax have been amended to implement recent legislative changes. These rules, adopted on an emergency basis in June (**Fiscal Notes,** August-September, 1979), became effective October 19, 1979. No fiscal impact is expected from rules .001 and .004. It is estimated that Rule .005 will produce less than $2 million in additional tax revenue, that Rule .007 will produce less than $500,000 additional tax, and that Rule .009 will produce less than $500,000 additional tax.

Continued on page 20

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue	Special Funds	Total Cash
Beginning Cash Balance September 1, 1979	$ 620.3	$2,351.7	$2,972.1
Revenues and Expenditures			
Revenues	$ 115.2	$ 511.7	$ 626.9
Expenditures	497.9	451.9	949.9
Net Income (or Outgo)	$(382.7)	$ 59.7	$ (323.0)
Net Interfund Transfers and Investment Transactions	$(107.7)	$ (160.0)	$ (267.7)
Total Transactions	$(490.4)	$ (100.3)	$ (590.7)
Ending Cash Balance September 30, 1979	$ 129.9	$2,251.4	$2,381.4

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. New amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the State but held in the Federal Treasury.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]

(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Intrastate Sales Gals.	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1977								
January	95.9	$803.6	659.3	$504.2	748.9	10.2	118.6	$ 581.9
February	95.0	780.6	604.4	548.0	660.8	7.4	114.8	593.8
March	86.1	721.3	645.6	561.0	642.7	11.8	120.1	589.4
April	94.2	774.3	597.7	502.3	758.1	13.9	122.6	722.4
May	81.4	763.0	610.9	626.1	729.6	14.6	133.1	914.2
June	104.3	779.0	620.0	519.8	763.9	15.3	137.8	736.1
July	97.9	750.3	651.8	557.4	800.1	14.8	120.2	775.2
August	89.9	760.4	624.7	576.4	749.3	14.3	113.0	731.0
September	86.3	783.6	580.8	606.9	834.9	14.8	162.6	881.4
October	87.8	755.1	594.9	583.5	724.8	13.9	128.2	698.2
November	92.5	802.9	569.4	556.8	744.6	15.1	126.1	667.2
December	88.1	783.1	608.0	560.8	755.1	13.2	136.9	783.6
1978								
January	90.1	797.4	627.2	542.9	719.6	14.5	117.8	733.6
February	95.2	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	82.3	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	89.4	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	80.5	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	93.8	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	84.1	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	87.7	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	85.0r	792.6r	544.4r	608.4	852.5	17.2	158.1	1,046.8
October	83.3r	782.7r	549.4r	583.9	710.6	13.4	137.2	691.9
November	85.5r	813.0r	543.1r	555.6	870.0	17.8	134.7	889.5
December	83.0r	798.1r	570.7r	553.9	773.7	12.8	134.6	759.2
1979								
January	84.8r	815.7r	597.3r	529.6	817.1	14.5	134.5	767.2
February	83.0r	812.6r	516.0e	608.8	754.4	7.2	106.7	898.4
March	81.1	813.7	546.9e	667.3	538.0	11.0	132.7	719.4
April	48.8	834.1	492.2e	600.4	799.8	14.8	138.2	930.5
May	102.4	853.0	538.0e	656.4	787.5	15.4	137.2	1,040.9
June	101.1	894.7	517.6e	657.3	810.1	15.7	141.0	997.3
July	76.7	959.1	531.4e	674.9	792.5	17.4	144.6	887.9
August	70.2	950.3	547.1e	694.8	750.6	14.6	113.3	912.3
September	156.5	1,271.7	601.0	763.3	867.0	19.7	159.4	1,017.9

[1]Estimates based on tax collections in months shown.

e - estimated

r - revised

RECENT TAX RULES

MOTOR VEHICLE SALES TAX

.026 Refunds. This rule has been amended to conform with present administrative policy. Procedures for requesting a refund of motor vehicle sales tax and motor vehicle gross rental receipts tax paid in error are outlined. Procedures for paying these taxes under protest are also detailed. Rule effective October 19, 1979. No fiscal implications are expected to result.

TAX ADMINISTRATION

Rules of Practice and Procedure. The Comptroller's Office has adopted amendments to five of its Tax Administration's rules of practice and procedure (.006, .010, .027, .038, and .039). These rules, adopted on an emergency basis in August, became effective October 17, 1979. No significant fiscal implications are expected.

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Fiscal Notes

Bob Bullock, Comptroller of Public Accounts

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WINDFALL PROFITS TAX: THE STORY CONTINUES

On January 22, a 26-member House-Senate conference committee agreed on a $227.3 billion windfall profits tax to accompany President Carter's program of domestic oil price decontrol.

The agreement came just over nine months after Carter first proposed the tax as part of his overall energy plan. The committee tax reconciles differences in the House version of the tax, adopted in June, and the Senate version, approved in mid-December of last year.

The $227.3 billion in revenues would be a target to be produced from the tax between 1980 and about 1990. Apparently, some or all components of the tax will be phased out as the $227.3 billion level is achieved; however, the conference committtee had not reached agreement on a phase-out plan as this report was written.

The revenue target was agreed to by conferees before Congress recessed prior to Christmas last year. Essentially, the committee reached the $227.3 billion figure simply by splitting the difference in revenue estimates between the House and Senate versions of the tax. The House bill would have raised $276.8 billion between 1980 and 1990, while the Senate bill would have raised just under $178 billion in the same period. The tax rate structure adopted by the committee in January is designed to produce the compromise revenue target.

Today's Profits--Tomorrow's Taxes

The accompanying table compares the conference committee's compromise tax rates with the earlier House and Senate versions. As the table shows, the committee's "windfall profits tax," like its predecessors, is really a series of excise taxes on the difference between the controlled and decontrolled price of oil in various categories.

Under the compromise, "old" and "new" oil--essentially production from wells drilled before 1979 and currently subject to price controls--will be taxed at a rate of 70 percent on prices above a $13 a barrel base price, which is about the current controlled price of new oil. The House version would have taxed this oil at a 60 percent rate, while the Senate bill provided for a 75 percent tax. Both of the earlier bills used a $6 a barrel base price for old oil, which is about its current controlled price.

Newly discovered oil and hard to produce tertiary and heavy oil will be taxed at a 30 percent rate above a $16.55 a barrel base under the compromise. As the table shows, this rate generally falls in the middle ground between the stiffer House rates and the comparatively lower Senate provisions.

Oil from "stripper" wells, which produce fewer than ten barrels a day, would be taxed at a 60 percent rate on prices above a $16 base. This rate is the same in all three versions of the tax.

The committee compromise provides special tax rates for the first 1,000 barrels of daily production by independent producers, defined as any firm refining less than 50,000 barrels a day or selling less than $5 million a year in retail petroleum products. Their tax rates will be 50 percent on old and new oil and 30

Continued on page 2

WINDFALL PROFITS TAX *Continued*

percent on stripper production. Other categories will be taxed under the general rate provisions.

The compromise on independents differs from both the House and Senate bills. The House version included no special provision for independents, while the Senate bill would have exempted an independent's first 1,000 barrels a day from any windfall tax.

The special rates for independents will benefit some 12,000 producers, reducing their tax liabilities by almost $35 billion over the life of the tax. Independents eventually will pay $22.5 billion of the total $227.3 billion tax, according to congressional estimates. The balance will fall on major oil companies.

Also resolved by the committee was the question of how the royalty payments states receive from oil produced on their public lands will be treated. The committee agreed to exempt all state and local government royalties from the tax. The Senate version had provided such an exemption, while the House bill had exempted only public royalties dedicated to education.

This exemption was the source of heated debate during Senate consideration of the bill. Sen. John Danforth of Missouri proposed an amendment to the Senate bill which would have applied the tax to state and local government royalty income. (See accompanying article.) Had it been enacted, the Danforth amendment would have cost producing states, including Texas, millions of dollars in increased royalties as a result of decontrol. However, senators from producing states succeeded in blocking the amendment, arguing it violated states' rights and would be declared unconstitutional by the federal courts.

Spending Priorities

With the basic structure of the tax set, the committee can turn to the issue of how the tax revenues will be used. Although consideration of this question had not begun at this writing, it is clear that any debate will focus on the Senate bill. In its version, the House specified only that the tax proceeds be placed in an Energy Security Trust Fund. The bill includes no provisions on how the revenues should be distributed and authorizes no new spending programs or tax credits.

Reportedly, the House Democratic leadership planned to pass a second tax bill earmarking the revenue for certain energy-related programs. But as Senate debate dragged on through 13 weeks, House strategists decided their bargaining position in conference committee would be improved if the House began with no spending plan.[1] Nonetheless, this puts the House in the rather unusual position of having voted to levy a massive new tax without specifying any particular use for it.

On the other hand, the Senate version contains detailed provisions covering the use of the federal tax windfall. Under the Senate bill, a large chunk of windfall profits tax revenues would go to help low and middle income Americans cope with higher energy costs. Low income assistance would take the form of block grants to states which would, in turn, make direct cash payments to recipients. Middle income households (those with adjusted gross incomes up to $20,000 annually for federal tax purposes) would be assisted through nonrefundable tax credits of up to $200 against federal income tax liabilities based on home energy expenditures.

The low-income assistance program would be authorized for 1981 and 1982, with an automatic extension to 1983, unless rescinded by either House. The middle income program would be authorized for the 1980-81 tax years. (For a more detailed description of this program, see *Rising Energy Costs and the Poor* in this issue of **Fiscal Notes**.)

In addition to direct assistance programs, the Senate bill would also authorize a number of tax credits to homeowners, landlords and businesses for installation of conservation and alternative energy equipment. These provisions supplement 1978 congressional measures which provided tax credits for homeowners and businesses that installed energy saving or renewable-source energy equipment.

To encourage production of alternative energy sources, the Senate bill would provide energy

[1] *Ann Pelham, "Senate Energy Committee Passes Weakened Version of Oil Windfall Profits Tax," **Congressional Quarterly Weekly Report**, Vol. 27, No. 43 (October 27, 1979), p. 2414.*

Continued on page 4

COMPARISON OF WINDFALL PROFITS TAX RATES

Category	House Bill	Senate Bill	Compromise Conference
Old Oil (Lower Tier)	Rate: 60 percent Base: $6/barrel plus inflation. Phases into upper tier by July 1984.	Rate: 75 percent Base: $6/barrel plus inflation.	Rate: 70 percent Base: $13/barrel plus inflation.
New Oil (Upper Tier)	Rate: 60 percent Base: $13/barrel plus inflation. Phases into the stripper category in 1991.	Rate: 75 percent Base: $13/barrel plus inflation.	Rate: 70 percent Base: $13/barrel plus inflation.
New Discoveries	Rate: 50 percent on first $9/barrel over base price; 60 percent above $26 a barrel. Base: $17/barrel plus inflation. Ends by 1991.	Rate: 10 percent Base: $19.30/barrel plus inflation.	Rate: 30 percent Base: $16.55/barrel plus inflation.
Tertiary Production and Heavy Oil	Rate: 50 percent on first $9/barrel over base price; 60 percent above $26 a barrel. Base: $17/barrel plus inflation. Ends by 1991.	Rate: 20 percent Base: $16.30/barrel plus inflation.	Rate: 30 percent Base: $16.55/barrel plus inflation.
Stripper Oil	Rate: 60 percent Base: $16/barrel plus inflation and quality and location differentials.	Rate: 60 percent Base: Same as House Bill.	Rate: 60 percent Base: Same as House Bill.
Special Provisions for Independent Producers	No Provisions.	First 1,000 barrels/day not taxed.	On first 1,000 barrels /day: 50 percent on old and new oil; 30 percent on stripper oil.
Other	State and local government royalties if dedicated to public education are exempt.	State and local government royalties if dedicated to any public purpose are exempt.	Same as Senate Bill.

SOURCE: U.S. Congress, Joint Committee on Taxation.

WINDFALL PROFITS TAX *Continued*

producers with a $3 tax credit for production of each unit of energy equivalent to a barrel of oil. Eligible for the credit would be oil from shale; oil from tar sands; synthetic fuels; gas from biomass; agricultural and forest by-products; and natural gas from tight coal and other non-petroleum sources. The bill would also expand existing federal tax breaks for gasohol production.

Also attached as a last-minute addition to the Senate bill and still to be considered by the conference committee is a proposed cut in income taxes on savings account interest and on dividends. The tax cut proposal, first introduced by Sen. Lloyd Bentsen, would exempt from federal income taxes the first $201 in interest and dividends for a single taxpayer and $400 for a married couple filing a joint return. Currently, a maximum $100 in dividends is tax free for a single taxpayer, and $200 is tax free for married couples. Taxes are presently charged on all income from savings accounts.

Stay Tuned

Despite conference committee actions on the windfall tax rates, approval of a final bill still may be several weeks away. Some observers believe the committee may bog down over the question of spending priorities, or that the Congress may become distracted from its deliberations by the increasingly tense international situation. However, conferees have surprised the experts thus far with their quick agreement on key elements of the bill, and no one seems willing to predict a long delay on approval of the final measure.

One person hoping for quick committee action is President Carter. Through the months of congressional debate, he has consistently criticized the slow progress of the tax bill. In an effort to spur action, the President in late December suspended one step in the decontrol of oil from marginal wells (producing 10-35 barrels a day) until Congress has a satisfactory tax bill on his desk. This action, in effect, froze price increases scheduled to take place on January 1 and affects about 100,000 barrels of production a day. Presumably, the delay in price increases will remain in effect until the compromise bill is adopted. The move will cost producers about $700,000 a day until that time, according to Administration estimates.

-- Billy Hamilton

OIL BELT FORMING ?

Decontrol of domestic oil prices will have many important consequences for this country, but the most far reaching may be one that has received only limited public attention to this point. That is the likely benefits major oil producing states will realize as a result of decontrol and the potential reaction of non-producing states.

In an analysis made public in December, the U.S. Treasury estimated that oil producing states will collect $127.6 billion in new revenues over the next decade because of rising oil prices. According to the Treasury, state and local governments will gain an extra $94.5 billion through increased severance, income and property taxes and an additional $33.1 billion in royalty income from oil production on public lands. The four largest producing states--Alaska, Texas, California and Louisiana--will receive the bulk of the revenue increase according to the Treasury. Together, state and local governments in the four states will receive over 80 percent of the estimated new revenues.

Although the methodology used in developing the estimates has not been released, preliminary analysis indicated that the Treasury projections may significantly overstate the real benefits of decontrol for producing states.

Despite the question of their accuracy, the Treasury figures have been used to fuel a growing controversy over the economic consequences of decontrol. Officials in non-producing states fear that rising oil prices will result in transfer of immense amounts of cash from their states to oil states. They also believe this

An Oil Dictionary

To federal policymakers, a barrel of oil ceased being simply a barrel of oil long ago. Oil is now classified according to its discovery date, the production level of the well and, in some cases, its geographic origin. Until all price controls are lifted in October 1981, how a barrel of oil is classified will have important implications for its price.* The following definitions show the classifications of U.S. oil under current federal statutes and approximate prices:

barrel - 42 gallons.

old oil - also called "lower-tier" and "tier-one". Oil from sites developed before 1973. Now sells for the controlled price of $6.80 a barrel.

new oil - also classed "upper-tier" and "tier-two" oil. All oil that came into production between 1973 and 1978, and some oil from the lower-tier category which has been partially decontrolled. Sells for the controlled price of $14.50 a barrel.

new discoveries - oil brought into production after January 1, 1979. Price controls were lifted on new discoveries on June 1, 1979. Sells for the uncontrolled world price of about $32 a barrel.

tertiary production - oil produced through the use of special enhanced recovery techniques. Prices are exempt from controls. Sells for the world price of around $32 a barrel.

stripper oil - oil from wells producing 10 barrels or less each day. Prices are already decontrolled. Sells for the world price of $32 a barrel.

Alaskan North Slope oil (ANS) - for price control purposes, Alaskan oil is classified as new or upper-tier oil. Sells for around $14.50 a barrel plus an Alaskan pipeline tariff of about $6 a barrel.

heavy oil - highly viscous oil defined as being less than 20.0 degrees API gravity, under federal guidelines. Prices are decontrolled. Sells for about $32 a barrel.

Naval Petroleum Reserve Production - production from one of several U.S. naval petroleum reserves. Prices are exempt from price controls. Sells for about $32 a barrel.

**Prices are as of January 1, 1980. In recent months, world market prices have fluctuated widely because of disagreements among the 13-member Organization of Petroleum Exporting Countries (OPEC). Contract prices in early January in the world market ranged from $24 to $35 a barrel. Prices in the non-contract "spot" market were about $40 a barrel.*

transfer will cause a shift in the national economic balance in favor of the oil states.

Citing the Treasury estimates, Senator John Danforth of Missouri introduced an amendment to the Senate windfall profits tax bill which would have extended the tax to state and local royalty income. The amendment would have cost states $12.4 billion over the next decade, according to congressional estimates.

In defense of his proposal, Danforth argued that Texas and other producing states would use the windfall gains to "conduct the most effective economic warfare against the rest of the country ever dreamed of."

The amendment was eventually rejected, but the issues it raised are certain to surface again. Neal Peirce, writing in his syndicated column on January 4 predicted that "the issue is sure to balloon into one of the major controversies of the '80s." Noting the potentially immense dollar amounts involved, Peirce speculated that the intensity of the debate may eventually surpass the Sunbelt-Frostbelt controversy of recent years.

As if to confirm Peirce's predictions, columnist Jack Anderson, writing in his column two days later, accused the major oil states of becoming "an unorganized but highly effective oil cartel that might be known as 'OPES': the Organization of Petroleum Exporting States." Again citing the Treasury's estimates, Anderson predicted that Texas would use its windfall to eliminate the state sales tax and provide new enticements to lure business away from non-

Continued on page 6

OIL BELT FORMING? *Continued*

producing states.

What Anderson failed to mention is that Texas state severance tax and royalty income is already earmarked for certain purposes, none of which include the waging of economic warfare. Virtually all state royalty income is constitutionally dedicated to public education, as is one-fourth of oil tax revenues. A 1941 statute earmarks the other 75 percent of oil tax collections for certain "priority allocations," which now include farm roads, medical and children's assistance, highways, teacher retirement, schools and general revenue purposes. While a change in these allocations is possible, it would require a dramatic shift in state tax policies in effect for decades.

As the full Treasury analysis becomes available, the Comptroller's Office will be examining its findings in light of state forecasts of oil production and price. A forthcoming issue of **Fiscal Notes** will discuss the decontrol issue in greater detail and analyze the likely size and uses of the increased revenues resulting from decontrol.

-- Billy Hamilton

RISING ENERGY COSTS AND THE POOR

In an effort to boost declining domestic oil production in the U.S., the federal government has begun a phased-in program of oil price decontrol which is to be completed by October 1, 1981. The lifting of federal price ceilings on domestic oil is expected to increase the cost of fuels substantially.

To limit the higher profits accruing to oil companies from decontrol, Congress has been debating the imposition of a windfall profits tax. The additional tax revenue would be used to encourage energy conservation, develop alternative energy sources and assist low-income households to pay rising energy costs.

The last objective is one which many people find hard to understand. Many are not aware of the dramatic impact on the poor that will result from a rapid acceleration in energy costs.

Impact of Energy Costs on the Poor

To many people, the plight of the poor in relation to rising home energy costs is a topic that usually conjures up visions of delapidated housing in the cold northern climates. However, the problem is not exclusively a northern dilemma.

Recent research conducted by the Urban Institute indicates that the burden of energy costs on low-income persons depends on a number of factors. One factor, of course, is the severity of the winter weather. Another important factor is the type of heating fuel used. For example, those households relying on heating oil bear a greater burden because the price of heating oil is rising faster than the price of other fuels. Finally, such factors as heat-retaining insulation and the efficiency of the heating unit affect energy costs.

The accompanying table shows estimates prepared by the Urban Institute which illustrate the impact of energy costs on poor households in different areas of the country. The table indicates that the financial burden on the low income population across the nation is relatively high. Even in states like Texas and Florida, which are not known for cold winters, expenditures for energy by poor households constitute a significant portion of income. More importantly, the number of poor households with energy costs exceeding 25 percent of income in these two states constituted almost 13 percent of the total number of poor.

Federal Assistance to the Poor

After an extremely cold winter in 1976-77, Congress began a program to provide financial

assistance to low-income individuals to pay utility bills so that utility shut-offs would be avoided. Since that time, the program has gone through a number of name changes but with only minor alterations. The program was initially called the Special Crisis Intervention Program but was renamed the Emergency Energy Assistance Program the following year. Last year, the program went by the title of Crisis Intervention Program, and in the current federal fiscal year, it is known as the Energy Crisis Assistance Program.

The average annual funding for this program is about $200 million. According to estimates of need prepared by the Urban Institute, this amount covers the heating expenses of less than a quarter of the households in extreme need, nationwide. The aggregate residential energy expenditure relative to the total for all states, the state's climate, and the number of eligible households.

The states would be responsible for administering the program, and the energy assistance could be given directly to eligible households or to the suppliers of energy to these households. The states would be required to give priority to the lowest-income households, to the aged and disabled, and to those with the largest energy costs in relation to their income. Each state could also alter its program to consider such factors as the average temperature and the type of heating fuel used in different regions of the state.

For middle-income households, Congress is examining the use of a nonrefundable tax credit.

ENERGY USE BY POOR HOUSEHOLDS
WINTER 1978

	Average Energy Expenditure		Indicators of Energy Need	
	For Heating Fuel	For Total Home Energy	Total Energy Expenditures as Percent of Annual Income	No. of Poor Households with Total Energy Costs Exceeding 25% of Income
Texas	$317	$ 617	20%	146,271
New Hampshire	708	1,031	28	10,654
New York	406	844	23	129,674
Florida	263	567	17	88,332
Wisconsin	383	428	18	25,831
Colorado	299	494	15	9,484
California	170	416	13	60,704
U.S.	329	628	19	1,841,684

SOURCE: Urban Institute Household Energy Attributes Model (HEAT)

NOTE: The table applies to households with incomes below 125 percent of the officially defined poverty threshold in 1978 and covers the period from July 1977 to June 1978. "Total home energy" does not include gasoline.

problem of rising home heating costs will be exacerbated by the impact of the deregulation of oil prices.

The Windfall Profits Tax and Household Energy Costs

The Senate's windfall profits tax bill allocates a portion of the net receipts of the windfall profits tax to low-income energy assistance. The funds will be allocated to states based on such factors as a state's

Although all taxpayers would be eligible for the tax credit, it is expected that there would be little overlap between recipients of the credit and the low-income energy assistance program because low-income households would have little or no tax liability against which to claim the credit. There would also be an income ceiling for eligibility for the tax credit. In 1980, only those taxpayers with an adjusted gross income of less than $22,000 would be

Continued on page 8

RISING ENERGY COSTS AND THE POOR *Continued*

eligible for the credit.

The maximum credit would be $200 per return and the minimum credit would be $30. The credit would be based on actual energy use, type of fuel consumed, and increase in energy prices relative to the overall rate of inflation. Renters would also qualify for the credit even if their utilities were not separately metered. For those renters on systems not individually metered, their credit would be computed as a percentage of total rent payments.

Tentative funding for the low-income energy assitance is set at $3.0 billion for FY1981 and $4.0 billion in FY1982. Most observers feel that this amount will not be enough to offset completely the impact of rising energy costs. The same applies to the impact of the tax credit for middle income households. It will be interesting to see what effect both programs, if passed, will have on counteracting rising heating bills.

-- Roger Vallejo

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

SALES TAX

.004 Drugs, Medicines, and Medical Equipment and Devices. Specialized printing or signalling equipment used by deaf persons enabling them to communicate through the use of an ordinary telephone, including all materials used in the equipment, is exempt. Effective November 16, 1979. The potential fiscal impact of this rule, assuming that all deaf persons would purchase this equipment, is estimated below:

Fiscal Year	Loss of Revenue to General Revenue Fund (in thousands)	Reduction in Local Sales Tax Collections (in thousands)	Reduction in MTA Revenue for San Antonio (in thousands)	Reduction in MTA Revenue for Houston (in thousands)
1980	$2,930.0	$608.0	$22.5	$157.0
1981	171.4	35.6	1.3	9.2
1982	174.4	36.2	1.3	9.3
1983	177.7	36.9	1.4	9.5
1984	180.8	37.5	1.4	9.7

SOURCE: Comptroller of Public Accounts, Revenue Estimating.

.020 Manufacturing, Custom Manufacturing, Fabricating, Processing. This rule, a codification of present policy, explains exemptions for materials essential to the manufacturing process. Included are definitions of "useful life," "display items," "sample," and other terms related to manufacturing. Distinctions are made for manufacturers, contractors, and repairmen. Effective November 16, 1979. No significant fiscal implications are expected to result from this rule.

.030 Responsibilities of a Seller. This rule has been

CRUDE OIL PRICE TRENDS

The impact of oil price deregulation was beginning to be reflected in Texas composite crude oil prices as early as last summer, based on an analysis of returns submitted by major taxpayers. During fiscal 1979--September, 1978 through August, 1979--the composite price for Texas crude oil rose from $9.45 to $13.53 per barrel, based on reports submitted by the 13 largest taxpayers. These reports represent about 65 percent of total Texas crude oil production during the 12-month period, approximately 643.9 million barrels. The value of this production is $6.84 billion.

The accompanying figure shows monthly composite prices for Texas crude oil, as reported by the major taxpayers during fiscal 1979. The impact of deregulation is most startling in June, 1979, when the composite price jumped 11.4 percent to $11.92 per barrel, compared with $10.70 in May. The July and August composite prices were $12.79 and $13.53 per barrel, respectively. The composite price for the entire fiscal year was $10.62 per barrel.

While the data are not yet available, fiscal 1980 prices are expected to continue to increase as the deregulation process continues and the impact of rapidly rising world oil prices is felt. An indication of this trend is reflected in the latest refinery posting for uncontrolled stripper, tertiary, or newly discovered oil of $32.80 per barrel.

-- Lloyd Rolen

See Chart on page 10

RECENT TAX RULES *Continued*

repealed. It is being incorporated into revised Rule .006. Effective December 28, 1979. No fiscal implications are expected.

.050 Processing, Rebuilding, Reconditioning; .063 Custom Manufacturing. These rules have been repealed. They have been incorporated into Rule .020. Effective December 28, 1979. No fiscal implications are expected.

.069 Moveable Specialized Equipment. This rule has been revised to be identical to Motor Vehicle Rule .041. The revision gives examples of moveable specialized equipment which are not considered motor vehicles. Effective December 28, 1979. No significant fiscal implications are expected.

FUELS TAX

.001-.022. These rules have been repealed because new rules have been adopted to implement recent legislation. Effective January 1, 1980. No significant fiscal implications are expected.

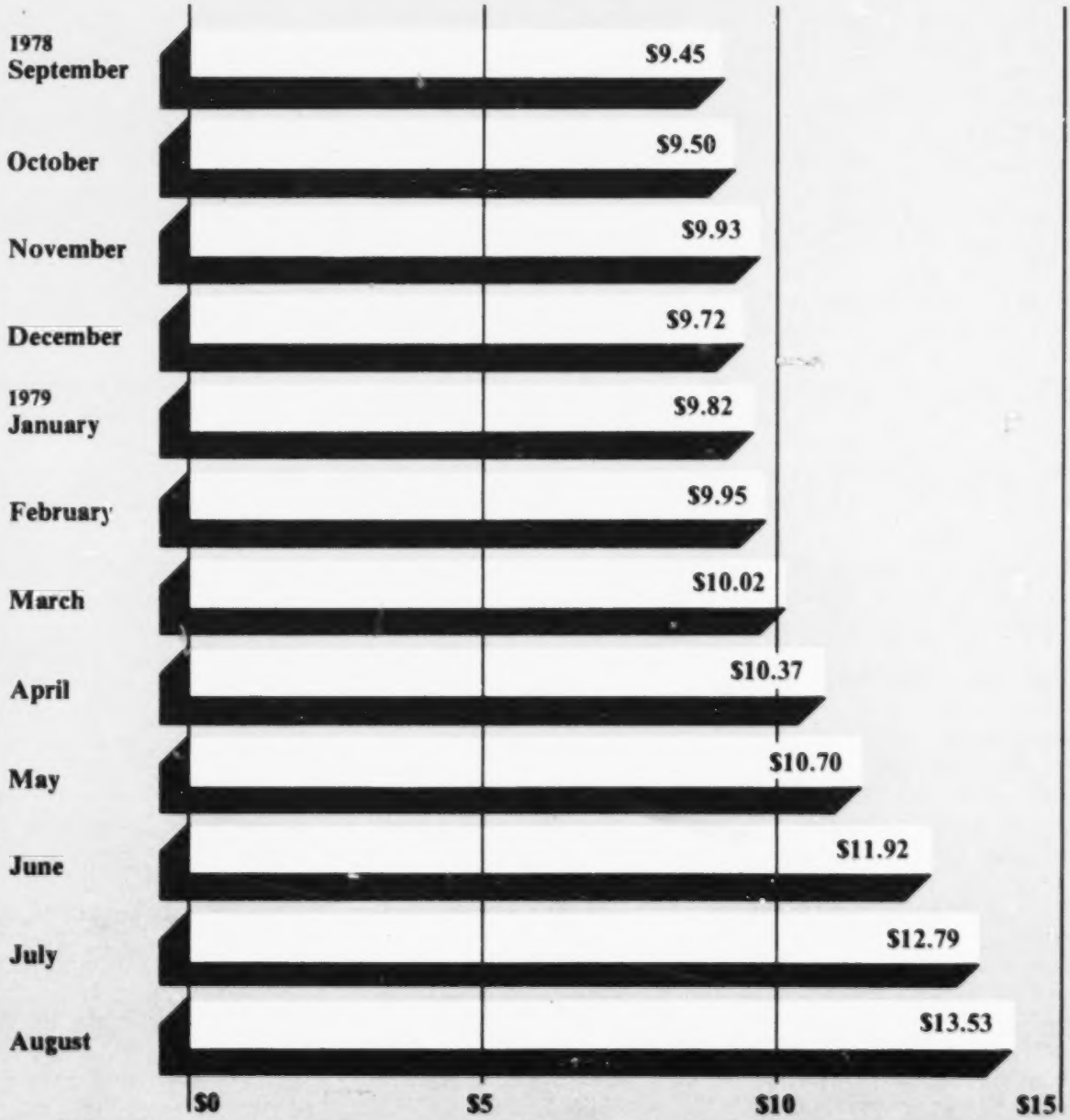
.101-.116. These new rules have been adopted to implement HB 1431 of the 66th Legislature, which completely revises and recodifies motor fuel, diesel fuel, and liquefied gas fuel statutes. These rules supersede repealed Rules .001-.022. Effective January 1, 1980. Implementation of HB 1431 will result in a non-recurring administrative expense to the Comptroller's Office in fiscal year 1980 estimated at $52,461. Implementation of these rules is expected to have no fiscal effects beyond those resulting from enactment of the statute, the losses from which are estimated to be:

Fiscal Year	Estimated Revenue Loss
1980	$ 547,000
1981	1,133,000
1982	1,174,000
1983	1,212,000
1984	1,250,000

SOURCE: Comptroller of Public Accounts, Revenue Estimating.

Continued on page 11

MONTHLY AVERAGE COMPOSITE PRICE PER BARREL OF TEXAS CRUDE OIL - 13 MAJOR TAXPAYERS[1] FISCAL YEAR 1979



[1]*The data reported for the 13 major taxpayers accounted for approximately 65 percent of all Texas crude oil production during this year.*

REVENUE BY PROGRAM CATEGORY ABSTRACT

Revenue from the Personal Property category, which includes the sales, inheritance and property taxes, is one of the major sources of state receipts in Texas. In October, November and December, receipts from levies on personal property totaled $141.8 million, $390.6 million and $106.5 million, respectively. These amounts increased the fiscal 1980 amount to $729.5 million, a 13 percent increase over a year ago.

Revenue derived from natural resources brought in $148.1 million in December, for a year-to-date total of $599.5 million. The Natural Resources category, including the oil and natural gas production taxes, as well as oil and gas royalties, leases and land sales, represents a 44 percent or $182 million increase over last year.

The "Other" category which includes items such as interest income and federal revenue sharing, represents a 27 percent increase over last year. December receipts under this category totaled $158.6 million, accounting for a year-to-date total of $636.5 million.

In the Transportation category December collections from various licenses and fees, motor vehicle sales and rental taxes, and motor fuel taxes totaled $94.9 million. This category accounts for $404.6 million during the current fiscal year and has grown by 13 percent above last year.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

	Monthly Revenue			Year-to-Date September 1979—December 1979		
Category	October 1979	November 1979	December 1979	Revenue	Change From Last FY	
Transportation	$118.0	$ 113.7	$ 94.9	$ 404.6	$+ 46.2	+13%
Personal Property	141.8	390.6	106.5	729.5	+ 83.2	+13
Business Regulation	7.6	9.9	4.1	26.1	+ 5.3	+25
Insurance	1.3	0.6	2.8	5.0	+ 1.1	+28
Utilities	1.0	40.3	0.1	46.2	+ 5.2	+13
Alcoholic Beverages	16.0	17.3	17.7	68.5	+ 7.6	+12
Tobacco	28.6	26.5	25.5	104.9	+ 3.6	+ 4
Natural Resources	184.8	167.8	148.1	599.5	+182.0	+44
Agriculture	0.4	0.3	0.3	1.2	+ 0.2	+19
Parks and Wildlife	1.7	5.5	2.9	12.0	+ 0	+ 0
Education	47.3	20.9	45.7	138.2	- 31.2	-18
Health	10.6	11.6	10.5	44.5	+ 1.4	+ 3
Welfare and MHMR	72.0	77.5	75.5	310.7	+ 23.7	+ 8
Other	144.8	148.9	158.6	636.5	+133.8	+27
TOTAL REVENUE[2]	$776.0	$1,031.4	$693.2	$3,127.4	$+462.1	+17%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

RECENT TAX RULES *Continued*

METROPOLITAN TRANSIT AUTHORITY SALES TAX

.002 Notice to Comptroller of Adoption of Metropolitan Transit Sales and Use Tax; Contested Election. This rule, which details the time frame for imposition of the MTA sales tax after an election, was adopted on

Continued on page 15

STATE REVENUE ABSTRACT

In December, state revenue totaled $693.2 million, raising the fiscal 1980 total to $3.13 billion. This is an increase of $462.1 million or 17 percent above a year ago.

Tax collections for the months of October, November and December were $397.9 million, $707.9 million and $341.8 million, respectively. Tax collections as a whole increased 17 percent above last year. Sales tax receipts thus far total $697.8 million--a 14 percent increase over the same period last year.

Receipts from the natural gas production tax totaled $59.7 million in October, $55.8 million in November and $57.8 million in December, raising the year-to-date total to $229.4 million. With receipts of $57.7 million in October, $77.9 million in November and $64.4 million in December, the oil production tax accounts for $211 million of all state revenue thus far. The natural gas production tax and the oil production tax have increased 34 percent and 51 percent, respectively, above the same period a year ago.

Federal funds have experienced a 6 percent increase above last year. December federal receipts were $186 million, with a year-to-date total of

Continued on next page

STATE REVENUE[1]
(Amounts in Millions of Dollars)

Tax Collections by Major Tax	Monthly Revenue October 1979	Monthly Revenue November 1979	Monthly Revenue December 1979	Year-to-Date September 1979—December 1979 Revenue	Change From Last FY	
Sales Tax	$132.1	$ 380.1	$100.7	$ 697.8	$+ 83.4	+14%
Natural Gas Production Tax	59.7	55.8	57.8	229.4	+ 57.6	+34
Motor Fuels Taxes	50.7	55.1	33.7	154.4	+ 1.7	+ 1
Oil Production Taxes	57.7	77.9	64.4	211.0	+ 71.0	+51
Motor Vehicle Sales Tax	35.8	36.2	36.1	146.8	+ 10.0	+ 7
Cigarette and Tobacco Taxes	28.6	26.5	25.5	104.9	+ 3.5	+ 3
Corporation Franchise Tax	2.8	1.5	1.0	7.8	+ 2.0	+35
Alcoholic Beverage Taxes	15.1	16.3	16.8	64.7	+ 7.6	+13
Insurance Companies Taxes	0.7	0.1	0.2	1.1	- 1.3	-54
Utility Taxes[2]	0.7	26.5	0.1	32.0	+ 3.4	+12
Inheritance Tax	10.0	10.2	3.9	28.8	+ 6.5	+29
Ad Valorem (Property) Tax	0.2	0.7	0.3	1.3	- 6.7	-83
Telephone Tax	0.3	13.8	0	14.2	+ 1.8	+15
Other Taxes[3]	3.6	7.3	1.2	13.2	+ 2.1	+19
TOTAL TAX COLLECTIONS[4]	$397.9	$ 707.9	$341.8	$1,707.4	$+242.6	+17%
Revenue by Source						
Tax Collections (detail above)	$397.9	$ 707.9	$341.8	$1,707.4	$+242.6	+17%
Federal Funds	208.4	165.9	186.0	764.9	+ 43.5	+ 6
Interest Income	54.4	87.3	92.2	318.7	+ 75.6	+31
Licenses and Fees	37.1	31.2	32.1	136.9	+ 36.8	+37
Land Income: Rents, Royalties, Sales	67.4	31.5	27.0	158.1	+ 45.1	+40
Other Revenue Sources[5]	10.8	7.5	14.1	41.3	+ 18.4	+80
TOTAL REVENUE[4]	$776.0	$1,031.4	$693.2	$3,127.4	$+462.1	+17%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax.
[3]Includes the Hotel-Motel, Cement, and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4]Totals may not add due to rounding.
[5]Patient Maintenance and Support Fees, Grants, Donations, and Miscellaneous Revenue.

STATE REVENUE ABSTRACT *Continued*

$764.9 million.

Interest income continues to be an important revenue source for the state. Interest earnings totaled $54.4 million during October, $87.3 million during November and $92.2 million during December. This raised the fiscal 1980 total to $318.7 million. This is an increase of $75.6 million or 31 percent above the same period a year ago.

STATE EXPENDITURES BY OBJECT ABSTRACT

In the current fiscal year more than $916.4 million has been spent on Foundation School Program grants from September through December. The second largest object of spending has been salaries and wages, which accounted for $178.2 million in December and $706.7 million for the year. Foundation School grants have increased 23 percent above last year, while salaries and wages have increased by 10 percent or $64.8 million.

Public assistance and medical care costs for indigent Texans reached $91.3 million in December. The year-to-date total for public assistance disbursements is $376.7 million, a $0.4 million increase above the same period last year.

Other Personal Services--retirement and social security costs are the principal items--totaled $74.2 million, $69.7 million and $71.2 million for October, November and December, respectively. Fiscal 1980 expenditures for personal services are $286 million, $75.5 million or 36 percent above a year ago. Most of this increase can be attributed to the employee's portion of the social security contribution now paid by the state--5.85 percent, up to $16,500.

Another object which shows a sizable increase is Capital Outlays for Highways, which accounted for a $92.5 million or 44 percent increase above the same period a year ago. December outlays were $74.7 million with a year-to-date total of $304.9 million.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures			Year-to-Date September 1979—December 1979		
	October 1979	November 1979	December 1979	Expenditures	Change From Last FY	
Salaries and Wages	$181.4	$179.4	$178.2	$706.7	$+ 64.8	+10%
Other Personal Services	74.2	69.7	71.2	286.0	+ 75.5	+36
Consumable Supplies and Materials	21.3	24.1	17.7	82.6	+ 12.4	+18
Current and Recurring Operating Expenses	34.4	33.1	31.8	129.9	- 3.0	- 2
Assistance and Medical Care for the Needy	79.3	88.7	91.3	376.7	+ 0.4	+ 0
Foundation School Program Grants	255.9	191.0	217.6	916.4	+169.7	+23
Other Public Education Grants	45.7	13.6	31.4	100.0	- 51.3	-34
Grants to Higher Education	11.5	1.2	47.7	199.7	- 22.1	-10
Other Grants	31.9	24.4	18.3	110.3	+ 11.2	+11
Payment of Principal on Indebtedness	0	1.9	0	2.9	+ 0	+ 0
Payment of Interest and Other Claims	0.1	16.3	0	18.1	+ 2.3	+15
Capital Outlay for Highways	62.5	82.9	74.7	304.9	+ 92.5	+44
Capital Outlay for Land and Buildings	11.5	11.4	12.8	44.7	+ 4.5	+11
Other Capital Outlay	17.5	23.5	27.5	79.6	+ 10.4	+15
TOTAL EXPENDITURES[2]	$827.3	$761.2	$820.2	$3,358.6	$+367.4	+12%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT

State expenditures totaled $827.3 million in October, $761.2 million in November and $820.2 million in December, raising fiscal 1980 disbursements to more than $3.3 billion. This represents an increase of $367.4 million or 12 percent above a year ago.

Education continues to be the major service provided by the state, with grants to school districts and support for higher education

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures			Year-to-Date September 1979—December 1979		
	October 1979	November 1979	December 1979	Expenditures	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 14.9	$ 13.6	$ 14.6	$ 58.5	$+ 10.4	+21%
Business Regulatory Commissions	4.8	4.7	4.7	19.2	+ 1.9	+11
Legislative	2.0	1.9	1.9	7.8	+ 0.8	+11
Judicial	2.1	2.1	2.1	8.6	+ 1.6	+23
TOTAL	$ 23.8	$ 22.3	$ 23.3	$ 94.0	$+ 14.6	+18
SERVICES						
Welfare	$107.8	$116.5	$119.9	$ 491.6	$- 1.3	- 0%
Mental Health, State Homes and Corrections	41.0	40.3	39.6	160.3	+ 13.3	+ 9
Health and Sanitation	12.3	12.9	12.6	47.6	+ 5.0	+12
Law Enforcement	8.9	8.1	7.8	34.1	+ 4.9	+17
TOTAL	$170.0	$177.8	$179.9	$ 733.7	$+ 21.8	+ 3
IMPROVEMENTS						
Highway Maintenance & Construction	$101.5	$127.0	$112.4	$ 466.5	$+121.1	+35%
Natural Resources	7.6	7.6	7.9	30.9	+ 2.5	+ 9
Parks and Monuments	5.2	4.4	3.8	17.7	+ 2.8	+19
TOTAL	$114.3	$139.0	$124.1	$ 515.1	$+126.4	+33
EDUCATION						
Support to State and Local Education	$425.8	$319.3	$414.0	$1,641.8	$+132.1	+ 9%
State Contribution to Teacher Retirement	34.9	35.2	34.7	139.8	+ 41.2	+42
TOTAL	$460.7	$354.5	$448.7	$1,781.6	$+173.4	+11
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 31.9	$ 24.4	$ 18.3	$ 110.3	$+ 11.2	+11%
Payment of Public Debt	0	18.2	0	21.0	+ 2.3	+12
Social Security Contribution	18.1	17.4	16.6	67.9	+ 16.0	+31
State Contribution to Employee Retirement	7.9	7.2	7.7	31.6	+ 1.4	+ 5
Miscellaneous	0.5	0.5	1.7	3.3	+ 0.2	+ 7
TOTAL	$ 58.4	$ 67.7	$ 44.3	$ 234.1	$+ 31.2	+13
TOTAL EXPENDITURES[2]	$827.3	$761.2	$820.2	$3,358.6	$+367.4	+12%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT *Continued*

accounting for 49 percent of all expenditures. December expenditures of $414.0 million boosted the year-to-date total to $1.6 billion. Outlays for support of state and local education increased $132.1 million or 9 percent above last year.

Welfare spending is the second largest category of state expenditures. December welfare expenditures totaled $119.9 million, raising the fiscal 1980 total to $491.6 million. This accounts for a decline of $1.3 million over the same period last year.

Highway maintenance and construction, the third largest category of state spending, totaled $112.4 million in December. Fiscal 1980 highway spending is $466.5 million. Highway expenditures have increased by 35 percent or $121.1 million above last year.

Social Security contributions increased 31 percent over last year with December contributions of $16.6 million. Social Security contributions account for $67.9 million so far—a $16 million increase above last year.

RECENT TAX RULES *Continued*

an emergency basis in August. It has been finally adopted and is effective December 5, 1979. No significant fiscal implications are expected to result from this rule.

.003 Change or Alteration of Authority Boundaries; Withdrawal from Authority; Notification Required. The amendment to this rule provides procedures for the withdrawal of a city or town from an MTA. Upon notification to the Comptroller of withdrawal, one whole calendar quarter must elapse prior to the withdrawal becoming effective. Emergency rule effective November 30, 1979.

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue[2]	Special Funds	Total Cash
Beginning Cash Balance October 1, 1979	$ 129.9	$2,251.4	$2,381.3
Revenue and Expenditures			
Revenue	$ 710.7	$1,789.9	$2,500.5
Expenditures	986.6	1,422.1	2,408.7
Net Income (or Outgo)	$(275.9)	$ 367.8	$ 91.8
Net Interfund Transfers and Investment Transactions	$ 176.9	$ (408.4)	$ (231.5)
Total Transactions	$(99.0)	$(40.6)	$ (139.6)
Ending Cash Balance December 31, 1979	$ 30.9	$2,210.8	$2,241.7

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. New amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

[2]The General Revenue cash balance includes $260 million transferred from Special Funds, as authorized by S. B.978.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Intrastate Sales Gals.	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1977								
January	93.8r	$803.6	659.3	$504.2	748.9	10.2	118.6	$ 581.9
February	86.1r	780.6	604.4	548.0	660.8	7.4	114.8	593.8
March	95.0r	721.3	645.6	561.0	642.7	11.8	120.1	589.4
April	91.7r	774.3	597.7	502.3	758.1	13.9	122.6	722.4
May	93.9r	763.0	610.9	626.1	729.6	14.6	133.1	914.2
June	90.5r	779.0	620.0	519.8	763.9	15.3	137.8	736.1
July	92.1r	750.3	651.8	557.4	800.1	14.8	120.2	775.2
August	91.8r	760.4	624.7	576.4	749.3	14.3	113.0	731.0
September	87.7r	783.6	580.8	606.9	834.9	14.8	162.6	881.4
October	91.8r	755.1	594.9	583.5	724.8	13.9	128.2	698.2
November	88.9r	802.9	569.4	556.8	744.6	15.1	126.1	667.2
December	91.0r	783.1	608.0	560.8	755.1	13.2	136.9	783.6
1978								
January	88.7r	797.4	627.2	542.9	719.6	14.5	117.8	733.6
February	80.7r	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	90.3r	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	86.0r	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	88.2r	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	85.2r	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	85.6r	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	85.0r	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	83.7r	792.6	544.4	608.4	852.5	17.2	158.1	1,046.8
October	87.3r	782.7	549.4	583.9	710.6	13.4	137.2	691.9
November	83.6r	813.0	543.1	555.6	870.0	17.8	134.7	889.5
December	85.1r	795.1	570.7	553.9	773.7	12.8	134.6	759.2
1979								
January	83.2r	815.7	597.3	529.6	817.1	14.5	134.5	767.2
February	76.4r	812.6	516.0	608.8	754.4	7.2	106.7	898.4
March	84.6r	813.7	546.9	667.3	538.0	11.0	132.7	719.4
April	79.9r	834.1	492.2	600.4	799.8	14.8	138.2	930.5
May	82.9r	853.0	538.0	656.4	787.5	15.4	137.2	1,040.9
June	101.1	894.7	517.6	657.3	810.1	15.7	141.0	997.3
July	76.7	959.1	531.4	674.9	792.5	17.4	144.6	887.9
August	70.2	950.3	547.1e	694.8	750.6	14.6	113.3	912.3
September		1,271.7	582.7e	763.3	867.0	19.7	159.4	1,018.9
October		1,085.2	603.0e	789.9	746.5	14.1	157.3	915.9

[1] *Estimates based on tax collections in months shown.*
e - estimated
r - revised

4/77/80

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Fiscal Notes

Bob Bullock, Comptroller of Public Accounts **Office of Planning and Research**

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THE VALUE ADDED TAX: AN INTRODUCTION

On October 22 of last year, Rep. Al Ullman, Chairman of the House Ways and Means Committee, proposed legislation that would dramatically alter the federal tax system. His bill, H.R. 5665, called the "Tax Restructuring Act of 1979," would substitute a ten percent value added tax (VAT) for reductions in existing federal income and Social Security taxes. The bill is intended as a partial cure for the nagging problems of inflation, low rates of savings and investment, and slow national economic growth.

In this, the first of a two-part series, the VAT concept and the views of its proponents and opponents are discussed. The second article will analyze the Ullman tax proposal and its likely impact.

What Is VAT?

The VAT is a multi-stage tax based on the value added to goods and services at each stage of production and distribution. For a given business, the tax typically is imposed as a percentage of total sales receipts less a credit for any tax previously paid.

To understand this concept, consider the case of a chair manufacturer subject to a ten-percent VAT (Table 1). The manufacturer buys lumber worth $100, to which the lumber company adds $10 in VAT ($100 x 10%), making the sales price $110. The company then manufactures a chair worth $200. With the ten-percent VAT, the actual sales price is $220. But, in fact, the firm will send only $10 in tax to the government, since it is eligible for a $10 credit on the lumber purchase. Much the same process occurs at the wholesale and retail levels, with the retail consumer paying the full amount of tax and receiving no credit. Thus, although the tax is collected at various levels in the production process, the actual burden is borne by the final consumer.

While several technically different types of value added tax have been devised, most interest has focused on the "consumption" and "income" types. These variations differ primarily in the method used in treating capital purchases.[1] Under the consumption type, businesses must pay VAT on purchases of capital assets but can deduct the tax payment from the VAT due on sales during the period. Under the income type, VAT paid on capital purchases is not offset against taxes collected on current sales but is recovered over the life of the asset through deductions of the kind now allowed under the federal income tax. If, for example, a machine has an expected life of ten years, a business might recover ten percent of the VAT paid in the year of purchase and in each of the next nine years.

The consumption VAT is the most commonly used value added tax worldwide and is most frequently discussed as an alternative for the United States. It is favored over the income type because capital goods are deducted in the year they are purchased, eliminating the need to distinguish between different types of goods. It is also said to

Continued on page 2

[1]A third type of VAT, called the gross product type, permits no recovery of VAT paid on capital items. The only way for the purchaser to recover the price is through higher sales prices.

THE VALUE ADDED TAX *Continued*

TABLE 1
Mechanics of Ten Percent Value Added Tax

Stage	Value Added	Selling Price	VAT Collected On Sale	VAT Credit[1]	VAT Due Government
Lumber Company	$100	$100	$10	$ 0	$10
Chair Manufacturer	100	200	20	10	10
Wholesaler	20	220	22	20	2
Retailer	30	250	25	22	3
Consumer	0	---	0	25	0

SOURCE: Adapted from Arthur Andersen & Co., ***Perspectives on the Value-Added Tax*** *(Chicago: Arthur Andersen & Co., 1979), p. 4.*
[1]Credit for VAT paid on purchases by the business.

induce greater economic growth, since it avoids imposing a tax deterrent to capital purchases.[2] The tax proposed by Rep. Ullman is a consumption type value added tax.

VAT Versus Sales Tax

In some respects, the VAT is similar in effect to a sales tax. There is a fixed tax rate, and the ultimate burden of the tax is borne by the final consumer of the taxed good. Also, like the typical sales tax, most value added taxes include a number of exclusions and exemptions. Under the Ullman proposal, for example, charities and schools -- both public and private -- are exempted, as are businesses with annual sales under $10,000. Some goods -- notably food, medical supplies and housing -- are taxed at a lower rate. These goods are taxed at half the normal ten percent rate under the Ullman bill.

There are, however, several important differences in the VAT and the sales tax. The VAT base typically is much broader than the sales tax base. The Ullman VAT would tax virtually all services and, as noted, food, medical goods and services and housing would also be taxed, although at a reduced rate. None of these items is taxed under the Texas sales tax.[3] Further, the VAT, at least as utilized in Europe and as proposed by Rep. Ullman, is hidden from the final consumer. That is, the price paid for a good includes the tax, but the amount of tax is not stated separately, as it is in the case of the sales tax. Finally, the most important difference in the VAT and the sales tax is the collection mechanism. Where a sales tax applies only to the final sale, a VAT is collected at all stages in the commercial process, implying the involvement of many more taxpayers than the sales tax.

Development of the VAT

Although unfamiliar to most Americans, the value added tax concept has been around for many years. The basic principles of value added taxation were developed in Germany and the United States shortly after World War I. In 1932, the Brookings Institution recommended a value added tax for Alabama and Iowa, and in 1940, a bill was introduced in Congress calling for a federal VAT. However, all attempts to adopt a VAT failed until 1953, when Michigan adopted a "business activities tax" (BAT), a form of limited value added tax. The tax proved difficult to administer, though, and was repealed in 1967. In 1975, Michigan adopted a "single business tax" (SBT) which is similar to a

Continued on page 4

[2]Arthur Andersen & Co., ***Perspectives on the Value-Added Tax*** *(Chicago: Arthur Andersen & Co., 1979), p. 5.*

[3]It should be noted that the Texas sales tax has one of the narrowest state sales tax bases. Some states do tax some services and food. There is no real uniformity among the states in these areas.

TABLE 2
VALUE-ADDED TAX: EFFECTIVE RATES
1979

Country	Lowest	Normal	Highest
Europe			
Austria	8%	18%	30%
Belgium	6	16	25
Denmark		15	
France	7	17.6	33-1/3
Germany	6.5	13	
Ireland	0[1]	10	20
Italy	1	14	35
Luxembourg	2. 5[2]	10	
Netherlands	0[1]	18	17.5
Norway	11.11	20	
Sweden	10.26[3]	20.63[3]	
United Kingdom	0[1]	15	
Asia and Africa			
Korea		10	
Ivory Coast	9.5	19	25
South America			
Argentina		16	
Bolivia		6	15
Brazil	13	14	15
Chile		20	
Colombia	4	15	35
Ecuador		4	20
Peru	3	20	40
Uruguay	7	18	
Central America			
Costa Rica		8	
Honduras		3	
Mexico		10	
Nicaragua		8	
Panama		5	

SOURCE: Alan A. Tait, "The Value-Added Tax: A Worldwide Problem or Solution?", ***Tax Notes*** (November 5, 1979), p. 611.

[1] *The zero rate is a full VAT rate applied to exempt sales and ensures that the taxpayer is credited with all the VAT paid at previous stages of production.*

[2] *A special rate of two percent applies to pharmaceutical, tobacco, dairy and meat products while a rate of five percent applies to basic necessities.*

[3] *The tax base is adjusted for houses (only 60 percent of the value is taxable), and hence the effective tax rate changes.*

THE VALUE ADDED TAX *Continued*

VAT.

The first national value added tax was levied by France in 1954. Other European countries, however, were slow to follow France's lead. No other country adopted a VAT until the late 1960's when pressure began to develop for a single tax system for the entire European Economic Community (Common Market). Finally, under terms of an agreement concluded in 1967, the five other founding members of the Common Market -- Belgium, Italy, Luxembourg, the Netherlands and West Germany -- agreed to implement a VAT by 1970. Since then, the tax has been adopted throughout western Europe and has spread outside Europe as well. Table 2 shows the countries now employing a VAT.

In most European countries, the VAT replaced a complex multi-stage sales tax called a "turnover" or "cascade" tax. This tax, like the VAT, was imposed at each level of production and distribution. However, the tax presented numerous administrative difficulties. The turnover tax did not allow for the deduction of tax paid at previous stages and consequently compounded the tax. In addition, vertically integrated companies could avoid paying taxes on internal stages of production and distribution by paying it only on their final product. Therefore, in most European countries, the VAT was a welcomed improvement.

Much of the discussion of the VAT in the United States in the last few years has also involved its potential for replacing existing taxes. In 1971, the tax was discussed as a replacement for the federal corporate income tax, and in 1972, President Nixon raised the possibility of using a federal VAT as a substitute for residential school property taxes. However, a study of this proposal prepared by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) at the President's request concluded that "... a massive new Federal tax program designed specifically to bring about property tax relief is neither necessary nor desirable."[4]

The current proposal by Rep. Ullman would use the value added tax to finance reductions in the federal personal income, corporate income and Social Security taxes. (Individual components of this proposal are discussed at greater length in the second part of this series.)

Proponents' Views of the VAT

VAT supporters argue that it offers substantial advantages over many of the current components of the federal tax system. It is viewed as a potentially large, stable source of tax revenue, one that treats purchasers with similar traits alike. The attractiveness of VAT is also cited on economic grounds. Proponents believe its implementation would encourage savings and investment, as well as stimulate exports.

Because of its broad base, VAT has the potential to generate large amounts of tax dollars at relatively low rates. It is estimated that a one percent federal levy would raise between $10 and $14 billion annually, depending on how the base is defined. (The Ullman proposal -- essentially a ten percent VAT -- would raise about $130 billion annually.) In addition, the VAT is viewed as a relatively stable source of tax dollars, similar in this respect to the general sales tax levied in most states. Due to its consumption base, the VAT is less susceptible to the economic fluctuations which affect both corporate and individual income tax collections.

Another advantage of the VAT that is often cited is its "neutrality," meaning that taxpayers in similar circumstances are treated equally. Because most items would be taxed at uniform rates under a VAT, business decisions would not be distorted by the imposition of this tax. In contrast, the corporate income tax, for example, falls only upon incorporated business, as well as those industries which are more capital -- than labor -- intensive. Federal income taxes also have the effect of subsidizing certain enterprises through various exemptions and tax credits. Under a VAT, all businesses would be taxed in the same manner.

One of the major arguments for the Ullman proposal is that the VAT would encourage savings and investment, crucial elements in providing capital for business formation and expansion. VAT

[4] *U.S. Advisory Commission on Intergovernmental Relations.* ***The Value-Added Tax and Alternative Sources of Federal Revenue*** *(Washington, D.C., 1973), p. iii.*

proponents contend that "direct" federal taxes, such as the corporate and individual income taxes, tend to discourage savings and investment. The "progressive" nature of current federal taxes -- additional income is taxed at increasingly higher rates -- results in a much lower rate of return for many investors from a number of savings and investment alternatives. Since the VAT is based on consumption, substituting the tax for at least a portion of federal income or payroll taxes would have the effect of encouraging consumers to save.

Finally, the VAT is viewed by many of its supporters as a means of stimulating exports and improving the U.S. balance-of-payments. Under long standing international agreements, indirect taxes, like the VAT, may be rebated on exports while equivalent taxes are imposed on imports. Direct taxes, like the income tax, are not subject to similar adjustments. Thus, a country raising a part of its revenue from indirect taxation can give rebates on exports and impose taxes on imports to its own advantage and to the disadvantage of nations relying on direct taxation.[5] The U.S., with its heavy reliance on direct taxes, is presently at a particular disadvantage. Enactment of the VAT, according to proponents, would eliminate the disadvantage.

The VAT's Drawbacks

Offsetting the VAT's potential advantages are several major disadvantages. Its regressive nature is often cited, as is its potentially inflationary impact. Many critics also fear that the VAT would impose a heavy administrative burden on business and would require a large, new federal bureaucracy. VATs like the one proposed by Rep. Ullman are often criticized because the tax payment by the final consumer would be hidden in the sales price of the taxed good. Opponents believe that this hidden nature, coupled with the tax's large revenue base, might lead to abuse by federal lawmakers. Finally, there is the potential that the imposition of a large federal VAT would greatly reduce the ability of state and local governments to increase their sales taxes.

Probably the most frequently cited criticism of the VAT is its regressivity. Critics believe the main burden of the tax falls on those in middle and lower income brackets who can least afford to pay it. These groups spend a large percentage of their income on current consumption, which is taxed under the VAT. Most proponents of the VAT acknowledge this problem but point out that the tax's regressivity can be reduced by exemptions or reduced rates slanted toward lower income persons. The reduced rates on housing, medical care and food under the Ullman VAT were incorporated in response to this problem.[6]

The inflationary impact of the VAT must also be considered. Any VAT proposal will increase the general price level by roughly the tax rate imposed, barring any large-scale exemptions. Further, this price rise could lead to demands for higher wages that would, in turn, lead to new price increases, thus fueling an inflationary spiral.

Opponents also fear the potential administrative impact of a federal value added tax. By its very nature, a federal VAT would require the filing of millions of tax returns and the maintenance of large amounts of new tax data. All of this would be particularly burdensome on small and medium-sized businesses that are ill-equipped to handle the additional paperwork. Further, the cost of this paperwork is likely to be passed on in higher consumer prices, thus adding to inflation.

In addition to the costs to business, a VAT would potentially create a vast new federal bureaucracy. This especially would be the case if it were added to the existing tax system without the repeal of any current tax. The government would be required to develop new rules and regulations, develop new tax returns and collection systems and hire new personnel to collect and process the tax.

Another criticism of the tax stems from its "hidden" nature. As utilized in most European countries and as proposed by Rep. Ullman, the VAT is included in the price paid by the consumer but is not stated explicitly, as a sales tax is. Coupled with this is the VAT's great revenue productivity -- as noted, a one percent VAT could generate between $10-14 billion. Given these two factors, critics warn that imposition of the tax could

Continued on page 6

[5] *Dan Throop Smith, "Value-Added Tax: The Case for," **Harvard Business Review** (November-December 1970), p. 82.*

[6] *Al Ullman, "Statement Upon Introduction of the 'Tax Restructuring Act of 1979,'" (October 22, 1979), p. 8.*

THE VALUE ADDED TAX *Continued*

lead to large increases in federal spending since lawmakers would be able to raise large sums with small, relatively invisible increases in the VAT rate.

Proponents of the tax, of course, view this objection as purely hypothetical and argue that the VAT need not be hidden. In Denmark, for example, the tax is stated separately. But separate statement would also create problems. The tax would have to be added to existing state and local sales taxes on many goods. Thus, businesses would face the added burden of distinguishing which tax applies to which goods, compounding administrative problems. Further, a separately stated VAT could potentially restrict the ability of state and local governments to increase their own sales taxes, one of their most important tax sources. This would particularly be a problem in a state like Texas, which depends on the sales tax for over 40 percent of its tax income.

Summary

Although it is new to most Americans, the value added tax has been around for a number of years. The concept was first developed in Germany and the U.S. after World War I. France became the first nation to adopt the tax in 1954. Since then, virtually all western European nations and a number of other countries worldwide have adopted the tax.

According to its supporters, the VAT offers several advantages that make it worthy of consideration as a new federal tax source. The tax would provide a strong, stable tax base. As envisioned in the Ullman proposal, its revenue capacity could be used to make significant cuts in federal income and Social Security taxes. Also, because it taxes consumption, proponents believe the VAT would encourage savings and capital investment and would ultimately lead to increased national economic growth. Finally, the tax is viewed by many of its supporters as a means of stimulating exports and improving the U.S. balance-of-payments.

A number of significant objections will have to be overcome, however, if this new and unusual tax is to become law. Strong arguments about its regressive nature and potential administrative burden have been made by many critics. Others warn that the tax would be inflationary, and that its hidden nature and large base could lead to fiscal irresponsibility. Still other critics believe most of the potential achievements of a VAT could be attained by changes in the present system.

The second article in this series will address these pros and cons as they relate to H.R. 5665 introduced by Rep. Ullman.

--Maria C. Mendez

Michigan Single Business Tax

SBT = VAT?

Michigan is the first--and thus far the only--state to adopt a form of value added tax (VAT). The state implemented a modified VAT, called a "business activities tax" (BAT), in 1954. However, the BAT proved difficult to administer, and after numerous amendments, it was repealed in 1967 in favor of a corporate income tax to complement the personal income tax adopted earlier.

In 1975, the state again adopted a form of VAT, this time called the "single business tax" (SBT). Several factors convinced legislators and businessmen to support the SBT. These factors included dissatisfaction with Michigan's tax climate and threats by major industries to relocate; the state's projected $200 million deficit for 1976; and sizable fluctuations in the amount

Continued on next page

SBT=VAT? *Continued*

of income tax revenue collected from one year to the next as a result of shifts in the state economy.[1] Proponents argued that enactment of the SBT would improve the state's poor business climate since the tax would promote capital investment, create new jobs, and create a more equitable tax structure.

The SBT took effect on January 1, 1976. It replaced the franchise tax, corporate income tax, personal property tax on inventories, financial institutions tax, business intangible tax, savings and loan company privilege tax and insurance company privilege fee. The tax rate was set at 2.35 percent of the value added to a product by a business.

The main difference in the SBT and BAT lies in the treatment of capital investment and depreciation. The SBT allows complete write-off of capital investment in the first year and requires that depreciation specifically be included in the base. The BAT allowed no capital investment write-off and did not include depreciation in the base.

Enactment of the SBT produced a definite shift in the Michigan state tax burden. Professions which previously had not been taxed were included under the SBT. Unlike the other taxes it replaced, the SBT levied a tax not only on the production and sale of goods, but also on the services rendered. The result was a shift in the relative tax burden from production to service oriented businesses. Another shift occurred in the taxation of high-profit versus low-profit producers. Under the corporate income tax, which the SBT replaced, profitable firms were taxed while marginal producers were exempt. The SBT eliminated the price advantage afforded the marginal firm under the old tax structure.[2]

Redistribution of the tax burden as proposed under the SBT was opposed by those adversely affected, such as professionals, low-profit firms, service firms and construction companies. As a result of lobbying efforts by these businesses, a number of exemptions and special provisions were included in the final tax bill.

Proponents of the original bill argued that these amendments added administrative complexities and altered the original tax concept. Although the Michigan SBT was initially proposed as a VAT, the numerous special provisions decreased the similarities between the two. Both a VAT and the SBT impose a tax on production and services. A pure VAT is applied uniformly to all businesses and to all stages of production and distribution. In contrast, the SBT allows some taxpayers to adjust their tax base and places a ceiling on specific components of the tax base. Thus, Michigan's original intention to enact a value-added tax has resulted in a significantly modified version.

--Maria C. Mendez

[1] *Alan Schenk, "The Michigan Single Business Tax: A State Value Added Tax", Tax Notes (April 9, 1979), p. 411.*

[2] *Ibid.*

WISCONSIN SETS UP "PEOPLE'S ESCROW FUND"

Under a recent law, the State of Wisconsin has created a "People's Escrow Fund" to automatically return accumulated budget surpluses to its taxpayers. The fund is scheduled to begin operation in 1981.

The fund was a part of a major state income tax reform bill that passed the Wisconsin legislature last February. Besides establishing the escrow fund, the tax package provided for an eight week moratorium on witholding

Continued on page 8

"PEOPLE'S ESCROW FUND" *Continued*

in 1979 and a 16 percent one-time income tax credit. The standard deduction was raised to the same level as in the federal income tax and the itemized deduction for other types of taxes was terminated. The latter was replaced by a standard rent/property tax credit in which 12 percent of a taxpayer's property tax will automatically be deducted from income. Renters will be entitled to a deduction of 12 percent of one-fourth of rent paid -- 12 percent of one-fifth if all utility bills are paid by the dwelling owner. The bill's final major provision was to index the state income tax to the Consumer Price Index. The legislation came about primarily as a way to redistribute a $1 billion budget surplus and to minimize the possibility of a future surplus.

The escrow fund will operate on a biennial basis and only when a surplus exceeds $50 million. The statute covers only individual, and not corporate, income taxpayers. The financial position of the fund will be reviewed every other year, and if a surplus exists, it will be returned to the taxpayers in proportion to the amount of income tax each paid compared to total collections.

The distribution formula will take the amount of income tax each individual pays and multiply it by the amount to be distributed divided by the total amount of income tax revenue collected. For example, if Wisconsin has a surplus of $60 million, $10 million will be considered as "excess surplus" (above $50 million) and will go into the escrow fund. If total income tax collections equaled $100 million, each individual will receive a payment equal to ten percent ($10 million÷ $100 million) of the amount he or she paid in income tax. A taxpayer who paid $600 in taxes would receive a $60 refund:

$$\$600 \times \frac{\$10 \text{ million}}{\$100 \text{ million}}$$

$$= \$60 \text{ payment}$$

Although the escrow fund is part of Wisconsin tax law, it is not expected to return a surplus in the near future. The income tax changes have erased the prior surplus and have kept a new one from building. Wisconsin's surplus, which had reached $407.8 million by the end of state fiscal year 1978, would have exceeded $1 billion at the end of fiscal 1979 had the tax legislation not passed. Instead, the surplus fell to $280 million in 1979 and is expected to drop to $90 million this June and near zero in fiscal 1981. The Wisconsin Department of Revenue estimates the savings to Wisconsin taxpayers since 1978 at $900 million.

--Howard Friedman

CALIFORNIA VOTERS FACE NEW TAX INITIATIVES

When California voters go to the polls to vote in the state's June 3 primaries, they will face two new tax-related initiatives. One, like the now-famous Proposition 13 of two years ago, involves a substantial tax cut. The other would add a ten percent surtax to the income tax bills of energy companies to fund mass transit programs.

Jarvis II

The new tax cutting initiative was conceived and brought to the ballot stage by Howard Jarvis, co-author and principal salesman of Proposition 13. The proposal, nicknamed "Jarvis II," would halve state income tax rates, which now run from one to 11 percent. It would also exempt business inventories from property taxation and require that income tax brackets be adjusted each year to eliminate inflation-caused tax increases. California law now includes temporary versions of these latter measures, so debate over Jarvis II focuses primarily on the tax cut.

The new Jarvis proposal should not be confused

with Proposition 4, approved by Californians last November. That initiative put limits on government spending rather than taxes. It requires state and local governments to limit spending growth to the increase in per capita income or inflation, whichever is lower.

If Jarvis II is adopted, the state would lose almost $5 billion in tax receipts in 1981, according to California Department of Finance estimates. This represents about a fifth of projected state revenue. Jarvis fixes the loss at about $3.2 billion. Either way, a reduction of such magnitude would have a dramatic effect on the state's financial condition, which is already reeling under the effects of Proposition 13. Although that measure cut local property taxes, the state assumed much of the loss from the tax cut by adopting a permanent provision transferring state revenue to localities to partially cover their revenue losses.

Proposition 13 cut local government revenue by about $7 billion annually. To make up for this loss, the state turned over $4.4 billion to localities in 1978 and $4.8 billion in 1979. An estimated $5 billion will be transferred this year. These transfers have eroded the state surplus, and, according to California budget officials, what's left will not be enough to cushion the impact of the Jarvis initiative.

Given the success of Proposition 13, which went into effect on July 1, 1978, this potential impact is being taken seriously both in California and elsewhere. Along with its normal budget, the governor's office is preparing an austere alternative budget which assumes adoption of Jarvis II. State agencies have been told to plan for cuts of up to 30 percent of their budgets presently before the legislature. Meanwhile, the prospect of another large revenue loss has prompted one national rating service, Standard and Poor's, to lower the state's bond rating from triple-A to double-A-plus.

Energy Company Surtax

In contrast to Jarvis II, the other tax initiative on the June 3 ballot would impose a large new surtax on California energy companies. A ten percent add-on to the current state corporate income tax would be imposed on oil, natural gas, coal and uranium companies which have an annual income of $5 million or more. Companies which derive more than half their income from energy-related activities would also be covered. The proposition, however, allows a tax credit of 50 cents for every dollar invested in increased production or refining of California oil and gas over 1978 base levels.

The state Legislative Analyst Office has estimated proceeds of the tax at between $125 million and $400 million, depending on the extent to which the production credit is used. This revenue would be earmarked to increase bus and rail services in the state and to develop alternative transportation fuels such as gasohol.

Heading the initiative drive is Bill Press, former director of planning and research for California Governor Edmund G. Brown, Jr. The Governor has endorsed the proposal. Opposition to the initiative exists among energy companies, who would be prohibited from passing the surtax on to consumers under the proposal.

Adoption of the energy surtax would represent a new direction in California tax policy. The state, which is ranked fourth in U.S. oil production and seventh in natural gas production, presently has one of the lowest natural resource severance tax levels among major producing states. Compared to Texas, which derives over 19 percent of its tax collections from oil and gas production levies, California imposes only a small conservation tax on oil and natural gas. The tax produces less than $2 million annually, accounting for less than one-tenth of one percent of total state tax collections.

More to Come

Regardless of how either initiative fares on June 3, things promise to get no less complicated for Californians in coming months. A citizens' group called California Tax Reform Association (CTRA) is already collecting signatures on a proposal called the "Tax Simplicity Act" to be placed on the November general election ballot. The proposal would use a $1 billion increase in the state corporate income tax to fund a like cut in the individual income tax.

And what happens if both Jarvis II and the CTRA proposal are adopted by voters? "That," according to CTRA executive director Jonathan Lewis, "would be a mess."

--Toni Lopez, Billy Hamilton

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

SALES TAX

.006 Seller's Responsibilities-Permits, Collections, Payments, Discounts, Records Required, Suspension. This rule has been amended to clarify and conform it to present Comptroller's Office policy. The amendment includes definitions of "retailer" and "place of business" and incorporates the responsibilities of the seller which had been part of Rule .030. In addition, the amended rule increases the rate of interest from 6 percent to 7 percent per annum on taxpayer accounts which are delinquent more than 60 days. Rule effective January 30, 1980. Changes resulting from clarification and definitions will have no fiscal impact. The probable fiscal effect of the increased interest rate on delinquent accounts is estimated below for the first five years after implementation.

Fiscal Year	Increased Revenue to General Revenue Fund 001
1980	$1,482,000
1981	1,636,000
1982	1,800,000
1983	1,986,000
1984	2,187,000

SOURCE: Comptroller of Public Accounts, Revenue Estimating.

Continued on page 16

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue[2]	Special Funds	Total Cash
Beginning Cash Balance January 1, 1980	$ 30.9	$2,210.8	$2,241.7
Revenue and Expenditures			
Revenue	$577.9	$1,360.8	$1,938.7
Expenditures	489.0	1,240.0	1,729.0
Net Income (or Outgo)	$ 88.9	$ 120.8	$ 209.7
Net Interfund Transfers and Investment Transactions	$ (7.3)	$ (104.0)	$ (111.3)
Total Transactions	$ 81.6	$ 16.8	$ 98.4
Ending Cash Balance February 29, 1980	$112.5	$2,227.6	$2,340.1

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. New amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.
[2]The General Revenue Fund cash balance includes $409.5 million transferred from Special Funds, as authorized by S.B.978.

REVENUE BY PROGRAM CATEGORY ABSTRACT

Revenue from the different areas of state activity is shown in the accompanying table. Personal Property, which includes the sales, inheritance and property taxes, has brought in almost $1.3 billion so far this fiscal year. This represents an increase of 18 percent or $195.2 million over the same period a year ago.

The Natural Resources category accounted for $133.8 million in January and $200.2 million in February. This category accounts for 18 percent of the total revenue this fiscal year. This group includes the oil, gas and sulphur production taxes, as well as oil and gas royalties, leases and land sales. Year-to-date revenue of $933.5 million represents a sizable 38 percent increase over last year.

Fifteen percent of the revenue thus far is from the miscellaneous sources in the "Other" category. Included in the "Other" category are interest income on state and local deposits and earnings from corporate securities, along with federal earned credits. This category has decreased by $21.6 million or 3 percent from a year ago.

Welfare and MHMR receipts, principally federal grants, totaled $90 million and $91.1 million in January and February, respectively. Year-to-date receipts are $491.8 million and account for 10 percent of all state revenue, an increase of $51 million of 12 percent from a year ago.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenue		Year-to-Date September 1979—February 1980			
	January 1980	February 1980	Revenue	Percent Of Total	Change From Last FY	
Transportation[2]	$ 75.4	$ 344.4	$ 824.5	16%	$+281.0	+52%
Personal Property	150.2	390.5	1,270.2	25	+195.2	+18
Business Regulation	5.9	10.9	42.9	1	+ 9.3	+27
Insurance	1.4	0.9	7.3	0	+ 2.3	+46
Utilities	0.4	38.3	84.9	2	+ 11.0	+15
Alcoholic Beverages	19.2	15.5	103.2	2	+ 9.8	+10
Tobacco	26.9	24.1	156.0	3	+ 7.4	+ 5
Natural Resources	133.8	200.2	933.5	18	+256.5	+38
Agriculture	0.5	0.3	2.0	0	+ 0.1	+10
Parks and Wildlife	3.6	2.8	18.5	0	+ 0.3	+ 2
Education	71.3	80.7	290.1	6	+ 26.1	+10
Health	12.1	12.9	69.5	1	+ 3.6	+ 6
Welfare and MHMR	90.0	91.1	491.8	10	+ 51.0	+12
Other[2]	187.9	-52.7	771.8	15	- 21.6	- 3
TOTAL REVENUE[3]	$778.7	$1,160.0	$5,066.2	100%	$+832.0	+20%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Federal receipts for transportation programs were previously recorded erroneously as "Federal Receipts-Other." These entries were transferred to the transportation category in February, explaining the negative amount in the "Other" category and the sizable amount in the "Transportation" category. Future federal receipts for transportation programs will be categorized under "Transportation."
[3]Totals may not add due to rounding.

STATE REVENUE ABSTRACT

Revenue from all state funds was $778.7 million in January and almost $1.2 billion in February, bringing the fiscal year total since September to over $5 billion. This represents a 20 percent increase over revenue collected during the same period last year.

Tax collections registered a 20 percent increase and have contributed almost $2.8 billion of the total year-to-date revenue. January and February tax revenue totaled $334.3 million and $748.9 million, respectively.

The sales tax growth during fiscal 1980 is 19 percent above a year ago. Receipts of $379.7 million during February brought the fiscal year total to $1.2 billion – 43 percent of all tax dollars.

The natural gas and oil production taxes have shown sizable gains over last year. With a year-to-date total of $348.8 million, the natural gas production tax has increased $91 million or 35 percent above the same period last year. The oil production tax, currently totaling $336.1 million, has shown a sizable 58 percent or $123.6 million increase.

Motor fuel taxes are running 6 percent above last year. January and February collections have raised the fiscal year total thus far to $245.9 million.

Federal funds, which account for 25 percent of all revenue to date, have experienced a 16 percent increase above last year. February federal receipts were $235.4 million, raising the year-to-date total to nearly $1.3 billion.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

	Monthly Revenue		Year-to-Date September 1979—February 1980			
Tax Collections by Major Tax	**January 1980**	**February 1980**	**Revenue**	**Percent Of Total**	**Change From Last FY**	
Sales Tax	$135.3	$ 379.7	$1,212.8	43%	$+193.4	+19%
Natural Gas Production Tax	58.1	61.3	348.8	13	+ 91.0	+35
Motor Fuels Taxes	19.0	72.5	245.9	9	+ 14.8	+ 6
Oil Production Taxes	25.2	99.9	336.1	12	+123.6	+58
Motor Vehicle Sales Tax	32.0	37.9	216.7	8	+ 13.2	+ 7
Cigarette and Tobacco Taxes	26.9	23.9	155.7	6	+ 7.4	+ 5
Corporation Franchise Tax	1.7	2.7	12.1	0	+ 3.6	+43
Alcoholic Beverage Taxes	18.4	14.7	97.7	4	+ 9.6	+11
Insurance Companies Taxes	0.2	0.4	1.7	0	- 1.2	-42
Utility Taxes[2]	0.1	23.9	56.1	2	+ 7.7	+16
Inheritance Tax	4.9	6.7	40.4	1	+ 5.6	+16
Ad Valorem (Property) Tax	8.9	4.7	14.9	1	- 4.6	-23
Telephone Tax	0.2	14.4	28.8	1	+ 3.3	+13
Other Taxes[3]	3.4	6.3	22.9	1	+ 3.8	+20
TOTAL TAX COLLECTIONS[4]	$334.3	$ 748.9	$2,790.7	100%	$+471.2	+20%
Revenue by Source						
Tax Collections (detail above)	$334.3	$ 748.9	$2,790.7	55%	$+471.2	+20%
Federal Funds	253.1	235.4	1,253.5	25	+172.8	+16
Interest Income	67.6	93.9	500.2	10	+107.3	+27
Licenses and Fees	40.3	31.7	209.0	4	+ 48.9	+31
Land Income: Rents, Royalties, Sales	48.7	36.5	243.2	5	+ 32.3	+15
Other Revenue Sources[5]	14.6	13.6	69.6	1	- 0.5	- 1
TOTAL REVENUE[4]	$778.7	$1,160.0	$5,066.2	100%	$+832.0	+20%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax.
[3]Includes the Hotel-Motel, Cement, and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4]Totals may not add due to rounding.
[5]Patient Maintenance and Support Fees, Grants, Donations, and Miscellaneous Revenue.

STATE EXPENDITURES BY OBJECT ABSTRACT

Foundation School Program Grants were the largest object of state spending in January and February, accounting for 27 percent of all state expenditures. The year-to-date total of nearly $1.4 billion has increased 22 percent over last year.

Salaries and wages of state employees reached $179.6 million for February, raising this fiscal year total to nearly $1.1 billion. This represents an increase of $96.9 million or 10 percent over the same period last year.

Public assistance and medical care for needy Texans increased by $33.4 million or 6 percent over a year ago. Disbursements for February totaled $112.6 million, boosting the year-to-date total to $610 million.

Other Personal Services--retirement and social security costs, unemployment compensation benefits and consultants' fees--totaled $71.8 million in January and $74.5 million in February. Thus far the fiscal 1980 total has exhibited an increase of $103.1 million or 31 percent.

Spending for highways has increased substantially above the fiscal 1979 pace, with February capital outlays of $47.6 million pushing the 1980 total to $417 million. This represents an increase of $144.3 million or 53 percent above a year ago.

STATE EXPENDITURES BY OBJECT[1]

(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1979—February 1980			
	January 1980	February 1980	Expenditures	Percent Of Total	Change From Last FY	
Salaries and Wages	$176.9	$179.6	$1,063.3	21%	$+ 96.9	+10%
Other Personal Services	71.8	74.5	432.3	9	+103.1	+31
Consumable Supplies and Materials	22.8	17.8	123.2	2	+ 16.3	+15
Current and Recurring Operating Expenses	34.1	32.9	196.8	4	+ 12.4	+ 8
Assistance and Medical Care for the Needy	120.6	112.6	610.0	12	+ 33.4	+ 6
Foundation School Program Grants	236.8	238.2	1,391.4	27	+250.5	+22
Other Public Education Grants	67.8	63.7	231.5	5	+ 1.8	+ 1
Grants to Higher Education	14.1	13.7	227.5	4	- 26.5	-10
Other Grants	36.0	24.1	170.4	3	+ 13.9	+ 9
Payment of Principal on Indebtedness	0	0	2.9	0	0	0
Payment of Interest and Other Claims	10.8	0.1	29.0	1	+ 1.9	+ 7
Capital Outlay for Highways	47.6	64.5	417.0	8	+144.3	+53
Capital Outlay for Land and Buildings	9.9	14.4	69.0	1	+ 5.8	+ 9
Other Capital Outlay	31.7	12.0	123.3	2	+ 31.4	+34
TOTAL EXPENDITURES[2]	$880.9	$848.1	$5,087.6	100%	$+685.2	+15%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT

State expenditures were $880.9 million and $848.1 million in January and February, respectively. Year-to-date disbursements total almost $5.1 billion for all state funds. This represents a $685.2 million or 15 percent increase above the same period a year ago.

Education grants to school districts and support for higher education continue to be the major service provided by the state, accounting for nearly half of all spending thus far. Educational outlays totaled $416.1 million in February, raising the fiscal 1980 total to over $2.4 billion, a 14 percent increase above the first six months of fiscal 1979.

Welfare spending is the second largest category of state expenditures. January and February welfare expenditures of $156 million and $140.4 million, respectively, have raised the fiscal 1980

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures		Year-to-Date September 1979—February 1980			
	January 1980	February 1980	Expenditures	Percent Of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 15.9	$ 17.9	$ 92.3	2%	$+ 21.1	+30%
Business Regulatory Commissions	5.4	4.9	29.4	1	+ 3.7	+14
Legislative	2.0	1.9	11.7	0	+ 0.1	+ 1
Judicial	2.1	2.1	12.8	0	+ 2.2	+ 2
TOTAL	$ 25.3	$ 26.8	$ 146.2	3	$+ 27.1	+23
SERVICES						
Welfare	$156.0	$140.4	$ 788.0	15%	$+ 42.5	+ 6%
Mental Health, State Homes and Corrections	45.1	43.3	248.7	5	+ 26.0	+12
Health and Sanitation	13.9	13.1	74.6	1	+ 5.0	+ 7
Law Enforcement	8.3	8.4	50.8	1	+ 6.6	+15
TOTAL	$223.4	$205.1	$1,162.1	23	$+ 80.1	+ 7
IMPROVEMENTS						
Highway Maintenance & Construction	$ 84.5	$101.2	$ 652.2	13%	$+181.8	+39%
Natural Resources	6.9	7.4	45.2	1	+ 2.7	+ 6
Parks and Monuments	4.1	3.8	25.6	1	+ 2.9	+13
TOTAL	$ 95.5	$112.4	$ 723.1	15	$+187.4	+35
EDUCATION						
Support to State and Local Education	$428.7	$416.1	$2,486.7	49%	$+296.1	+14%
State Contribution to Teacher Retirement	35.5	35.2	210.5	4	+ 55.5	+36
TOTAL	$464.2	$451.3	$2,697.1	53	$+351.6	+15
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 36.0	$ 24.1	$ 170.4	3%	$+ 13.9	+ 9%
Payment of Public Debt	10.7	0	31.7	1	+ 1.8	+ 6
Social Security Contribution	15.5	20.8	104.2	2	+ 20.4	+24
State Contribution to Employee Retirement	8.6	7.1	47.3	1	+ 2.5	+ 6
Miscellaneous	1.6	0.4	5.4	0	+ 0.4	+ 7
TOTAL	$ 72.5	$ 52.5	$ 359.1	7	$+ 39.0	+12
TOTAL EXPENDITURES[2]	$880.9	$848.1	$5,087.6	100%	$+685.2	+15%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT *Continued*

total to $788 million. This accounts for 15 percent of total state spending. It represents an increase of $42.5 million or 6 percent above last year.

Highway maintenance and construction costs totaled $101.2 million in February. Year-to-date highway spending is $652.2 million, 13 percent of all state expenditures. Highway expenditures are running 39 percent above last year.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Intrastate Sales Gals.	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1978								
January	88.7	$ 797.4	627.2	$542.9	719.6	14.5	117.8	$ 733.6
February	80.7	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	90.3	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	86.0	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	88.2	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	85.2	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	85.6	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	85.0	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	83.7	792.6	544.4	608.4	852.5	17.2	158.1	1,046.8
October	87.3	782.7	549.4	583.9	710.6	13.4	137.2	691.9
November	83.6	813.0	543.1	555.6	870.0	17.8	134.7	889.5
December	85.1	795.1	570.7	553.9	773.7	12.8	134.6	759.2
1979								
January	83.2	815.7	597.3	529.6	817.1	14.5	134.5	767.2
February	76.4	812.6	516.0	608.8	754.4	7.2	106.7	898.4
March	84.6	813.7	546.9	667.3	538.0	11.0	132.7	719.4
April	79.9	834.1	492.2	600.4	799.8	14.8	138.2	930.5
May	82.9	853.0	538.0	656.4	787.5	15.4	137.2	1,040.9
June	79.8r	894.7	517.6	657.3	810.1	15.7	141.0	997.3
July	81.7r	959.1	531.4	674.9	792.5	17.4	144.6	887.9
August	80.2r	950.3	547.1e	694.8	750.6	14.6	113.3	912.3
September	77.4r	1,271.7	582.7e	763.3	867.0	19.7	159.4	1,018.9
October	69.9r	1,085.2	603.0e	789.9	746.5	14.1	157.3	915.9
November		1,213.5	563.5e	738.2	798.8	20.9	128.3	847.4
December		1,066.8	567.2e	771.4	743.1	15.0	131.3	827.7
1980								
January		1,452.7	581.1e	790.2	863.6	14.7	135.0	866.1

[1]Estimates based on tax collections in months shown.
e - estimated
r - revised

RECENT TAX RULES *Continued*

.028 Computers-Hardware, Software, Services, and Sales. This rule has been amended to conform to a recent court decision. Under the revised rule, the sale, lease, or rental of computer programs or programming services are not subject to the sales or use tax unless such items are a mandatory part of the sale, lease, or rental of hardware. Emergency rule effective February 13, 1980.

METROPOLITAN TRANSIT AUTHORITY SALES TAX

.003 Change or Alteration of Authority Boundaries; Withdrawal from Authority; Notification Required. This rule has been amended to reflect recent legislative changes. Adopted on an emergency basis in November *(Fiscal Notes*, February-March, 1980), the rule became effective February 15, 1980. No significant fiscal implications are expected to result.

THE FEDERAL TAX BURDEN IN TEXAS

Texans will owe $31 billion in federal taxes for the current 1980 fiscal year, according to recent estimates of the Tax Foundation, a private research group based in Washington.

The estimates are based on President Carter's budget as it was introduced in January and are derived using a formula which identifies taxes at the point of incidence rather than the point of collection. Texas ranks fourth in total federal tax liability in 1980, behind California, New York and Illinois. Texas' share is 6.1 percent of the total $506.3 billion federal tax bill. The ten highest paying states will owe $292.5 billion, or 57.8 percent of the total.

As the accompanying table shows, Texas' share of 1980 federal taxes represents a 15.9 percent increase over 1979. It is estimated that the state's burden will increase by another 14.7 percent in fiscal 1981.

In per capita terms, Texas ranks 23rd in 1980 with a liability of $2,271. This is slightly below the U.S. per capita burden of $2,286. Estimates indicate that the Texas per capita burden will increase by 11.9 percent in 1981. This compares with an estimated 13.7 percent per capita increase for the U.S. as a whole during the same year.

-- Janice Travis

Estimated Total and Per Capita Federal Tax Burden for Texas
Fiscal Years 1979—1981

Fiscal Year	Total Burden (Millions)	Increase From Prior FY	Per Capita Burden	Increase From Prior FY
1979	$26,733	—	$2,010	—
1980	30,985	15.9%	2,271	13.0%
1981	35,548	14.7	2,542	11.9

*SOURCE: Tax Foundation, Inc., **Monthly Tax Features**, Vol. 24, No. 2 (February, 1980).*

TEXAS TAX CALENDAR

MAJOR TEXAS DEADLINES, SECOND QUARTER, 1980

STATE, LOCAL AND MTA SALES AND USE TAX

April 15 ..... All April monthly prepayments/reports

April 30 ..... All 1st quarter payments/reports
All March monthly payments/reports

May 15 ..... All May monthly prepayments/reports
All 2nd Quarter prepayments/reports for quarterly filers with tax liability of more than $750 per month and for voluntary quarterly prepayments/reports

June 2 ..... All April monthly payments/reports

June 15 ..... All June monthly prepayments/reports

June 30 ..... All May monthly payments/reports

GASOLINE, DIESEL FUEL, LIQUEFIED GAS

April 25 ..... All 1st quarter payments/reports
All March monthly payments/reports

May 26 ..... All April monthly payments/reports

June 25 ..... All May monthly payments/reports

CRUDE OIL, NATURAL GAS TAX

April 22 ..... All February gas monthly payments/reports

April 25 ..... All March oil monthly payments/reports

May 20 ..... All March gas monthly payments/reports

May 27 ..... All April oil monthly payments/reports

June 20 ..... All April gas monthly payments/reports

June 25 ..... All May oil monthly payments/reports

HOTEL-MOTEL OCCUPANCY TAX

April 30 ..... All 1st Quarter payments/reports

CIGARETTE, CIGAR AND TOBACCO PRODUCTS TAX

April 15 ..... All March monthly payments/reports

May 15 ..... All April monthly payments/reports

June 16 ..... All May monthly payments/reports

BOB BULLOCK
COMPTROLLER OF PUBLIC ACCOUNTS

Fiscal Notes

Bob Bullock, Comptroller of Public Accounts — Office of Planning and Research

ISSUE 80:7 — May, 1980

S.B. 621: IMPLICATIONS FOR THE STATE FRANCHISE TAX

One of the most significant pieces of legislation passed by the Regular Session of the 66th Legislature was Senate Bill 621, which recodified and reformed the property tax in Texas. The new tax code contains two provisions which have the effect of substantially altering not only the base on which the county and state ad valorem taxes are levied, but also, for certain corporations doing business in Texas, the base on which their franchise tax liability is determined.

Section 26.02 of S.B. 621 prohibits the practice of "fractional assessment" of property for taxation, i.e., assessment on the basis of a percentage of the property's appraised or market value. In the past, County Boards of Equalization had multiplied the appraised value of property within their respective counties by an assessment ratio -- or percentage -- to arrive at an "assessed value" of the property. This assessed value constituted the base on which the county and state ad valorem taxes were computed. In most counties, the assessment ratio was much less than 100 percent, resulting in taxable values which were much lower than the appraised values.

Section 26.02 eliminates this fractional assessment practice by requiring that property be assessed for taxation on the basis of 100 percent of its appraised or market value beginning January 1, 1981. This provision will increase most of the counties' bases for county ad valorem tax purposes. However, Section 26.03 provides for an assessment ratio of .0001 percent for computing the state property tax as of January 1, 1980. The state's ad valorem tax is levied at a rate of 10¢ per $100 of assessed property value. The application of such a small assessment ratio has effectively eliminated the base to which the tax rate is applied for state ad valorem tax purposes since it now takes an assessed value of $1 billion before the tax liability equals $1.

As significant as these changes in county and state property tax bases are, S.B. 621 gains additional importance when its implications for the state corporation franchise tax are examined. The franchise tax is a "privilege" tax levied on each corporation doing business in Texas. In determining its franchise tax liability, each corporation must pay a franchise tax based on whichever of three alternatives yields the highest tax. One alternative is simply a $55 minimum tax,[1] while the other two require the determination of a franchise tax base to which a standard rate ($4.25 per $1,000 of the base) is applied to arrive at the amount of tax due. One base is the amount of the corporation's taxable capital allocated to Texas

Continued on page 2

[1] TEX. TAX-GEN. ANN. art. 12.01(1)(c) (Vernon Supp. 1979).

IN THIS ISSUE:
TEXAS ENERGY REPORT CENTER SECTION

S.B. 621 *Continued*

on the basis of the portion of the corporation's gross receipts resulting from its business activities in Texas.[2] The other base is "the assessed value for county ad valorem tax purposes of the real and personal property owned by the corporation in this state."[3] It would seem that the county assessed value franchise tax base would increase as a result of the provision of Section 26.02 of S.B. 621 requiring a uniform assessment ratio of 100 percent for county ad valorem tax purposes. However, the assessment ratio "for calculating taxes for state purposes" is .0001 percent according to the provisions of Section 26.03 of S.B. 621. Since the franchise tax is a state tax, there is legal uncertainty as to whether the franchise tax base will increase as a result of 100 percent county assessment effective January 1, 1981, or decrease as a result of the .0001 percent state assessment ratio effective January 1, 1980.

The Comptroller has requested an Attorney General's opinion to resolve the question of the appropriate assessment ratio for state franchise tax purposes. Should the Attorney General decide that the franchise tax assessment ratio is 100 percent of appraised value, the State can expect increases in franchise tax revenue beginning in fiscal year 1982. If, however, the opinion of the Attorney General is that .0001 percent is the appropriate ratio for franchise tax purposes, the State will experience losses in franchise tax revenue attributable to this assessment ratio beginning in fiscal year 1981.

An analysis of county assessment ratios and of corporations paying the state franchise tax was conducted to estimate the effects on tax revenue of each alternative base. It was found by the School Tax Assessment Practices Board (now the State Property Tax Board) that the average county assessment ratio used by Texas counties in 1977 was approximately 28 percent. If corporate property in Texas had been assessed at the average ratio of 28 percent of its appraised value, then increasing the value of corporate property to 100 percent of appraised value can be expected to result in significant increases in franchise tax revenue. For an individual corporation paying the franchise tax, this increase in the assessment ratio would have the effect of increasing its assessed value base relative to its taxable capital base. Corporations now paying the tax on the basis of the county assessed value would experience a direct increase in their tax base, resulting in a greater franchise tax liability. Additionally, certain minimum taxpayers and some corporations which have been paying their franchise tax based on taxable capital would be required to pay a higher franchise tax based on the county assessed values of their property.

Fiscal 1979 franchise tax data indicate that had the full value assessment provision been in effect, the number of corporations paying the tax on the assessed value base would have increased from 4.7 percent to 13.6 percent of all corporations. Correspondingly, the amount of franchise tax paid on the assessed value base would have risen from 8 percent to 33.9 percent of total collections. These increases in franchise tax revenue would not begin until fiscal year 1982, but had the 100 percent assessment ratio been in effect in fiscal 1979 and in the current biennium, the following estimated revenue increases would have occurred:

FISCAL YEAR	ESTIMATED REVENUE GAINS TO GENERAL REVENUE FUND
1979	$115,588,800
1980	114,634,600
1981	131,690,600

An estimate was also made of the fiscal effect of the alternative .0001 percent assessment ratio. Application of this ratio to the appraised value of corporate property in Texas would be expected to reduce franchise tax revenue beginning in fiscal 1981. Since the .0001 percent would be multiplied by the total appraised value of corporate property, this

[2] *TEX. TAX.-GEN. ANN. arts. 12.01(1)(a), 12.02 (Vernon Supp. 1979).*
[3] *TEX. TAX.-GEN. ANN. art. 12.01(1)(b) (Vernon Supp. 1979).*

assessment would reduce the assessed value base for franchise tax purposes. This reduction could have either of two important effects on an individual corporation's franchise tax report. First, corporations which would continue to pay their franchise tax on the assessed value base would experience a reduction in their tax liability as a result of a lower assessed value. However, probably no corporation would continue to report on the assessed value basis since it would take an appraised value of almost $13 billion to yield a tax on assessed value higher than the $55 minimum tax. Further, even if a corporation had property in Texas appraised at $13 billion, it would continue to report on the basis of assessed value only if it had no taxable capital. A second, and more likely, effect of the reduction of the assessed value base would be expected for corporations which previously had been paying the tax on the basis of assessed value, but would now be shifted to the taxable capital base as it became higher relative to the assessed value alternative. Had this .0001 percent assessment ratio been in effect in fiscal 1979 and in the current biennium, the following estimated franchise tax revenue losses would have resulted:

FISCAL YEAR	ESTIMATED REVENUE LOSSES TO GENERAL REVENUE FUND
1979	$ 9,923,000
1980	9,841,000
1981	11,305,000

These estimated revenue losses, as well as the estimated revenue gains resulting from the effect of full value assessment on the franchise tax, are based on two important assumptions. First, it was assumed that all corporate property was assessed at the average ratio for the state. The use of the 1977 average county assessment ratio of 28 percent may result in an understatement or an overstatement of the revenue impact to the extent that corporate property is located, and thus assessed, in counties presently having assessment ratios which are either higher or lower than the statewide average. Second, these estimates assume that appraisal practices remain unchanged over the period of the estimate. Changing appraisal practices could have the effect of increasing or decreasing the magnitude of both the revenue increases and the losses. Higher and more frequent appraisals would increase the potential revenue gains or losses, while lower appraisals resulting from switches from market to productivity values would decrease the impact. These estimates illustrate the magnitude of the possible changes in assessments ratios only.

Full value assessment becomes mandatory beginning January 1, 1981. Therefore, its first impact on the franchise tax would not occur until fiscal year 1982. On the other hand, possible impact from the .0001 percent assessment ratio would be felt first in fiscal 1981.

—Stephen Del Resto

DEFERRED INVESTMENT TAX CREDIT INCLUDED IN FRANCHISE TAX BASE

The Texas Supreme Court recently found "no reversible error" in a lower court decision upholding the Comptroller's Rule requiring that deferred investment tax credits be included in the taxable surplus base for franchise tax purposes. These investment tax credits are reductions in federal tax liabilities which result from the purchase of certain capital assets.

In **Dallas Power & Light Co., et al v. Bullock,**[1]

Continued on page 4

[1] 589 SW 2d 486

DEFERRED INVESTMENT TAX CREDIT

Continued

the Beaumont Court of Civil Appeals agreed with the Comptroller that a corporation receiving the benefits of the investment tax credit had its financial condition enhanced by the full amount of the credit regardless of the accounting method used by the corporation to recognize the credit. The case involved five investor-owned public utilities. Trial testimony had shown there were two "generally accepted" methods of accounting for the credit: (1) the "flow-through method" by which the entire credit flows through to retained earnings in the year it is received; and (2) the "deferral method" used by the utilities, by which the credit is brought into retained earnings over the life of the asset. The court recognized that regardless of the method of accounting, the credit "is money (the corporations) do not have to expend that year and increases or 'flows through' to their surplus immediately and not over a period of years. . . ."

This particular case involved two years worth of deferred investment credit for the five companies. As a result of the court's decision, $626,000 will be transferred to the General Revenue Fund from funds paid under protest. A total of almost $3 million has been paid under protest on the issue in general. In addition, cases involving over $5 million are still in the administrative pipeline. The Business Tax Division has estimated that this decision will prevent the loss of about $2 million annually to the State.

Eleanor Braun

STATE GRS FUNDING: DEAD AND GONE?

President Carter has recommended that $1.7 billion in general revenue sharing (GRS) funds destined for state governments be omitted in fiscal 1981, as part of his efforts to balance the federal budget. In recent weeks, both the House and Senate Budget Committees have endorsed the elimination of the state portion of the GRS program. What impact will these actions have on Texas state finance? What programs and activities will be affected?

Before these questions can be answered, it is important to put the current GRS program in perspective. GRS has changed little since it was enacted with the passage of the State and Local Assistance Act of 1972. Funds are allocated to each state by either a three- or five-factor formula. One-third of the funds allocated to each state are disbursed to the state government, while the remaining two-thirds is distributed directly to local general-purpose governments on a formula basis.

Since its inception, the GRS program has been funded on an entitlement basis instead of through annual appropriations. This has been an important ingredient in the success of the program. State and local budget planners could depend on consistent funding for a several-year period, unhampered by the whimsical nature of the federal appropriations process, which adds an element of uncertainty to many federal grant programs.

Under the original Act, Congress authorized $30.2 billion for GRS grants for the period January 1972 through December 1976. An amended version of the Act authorized spending of $25.5 billion between January 1977 and September 1980. It is the debate over once again renewing the program which is at the heart of the present controversy.

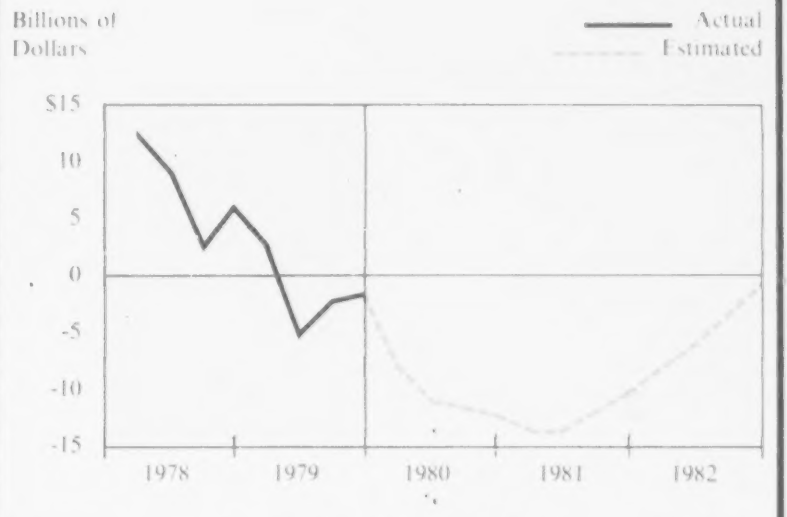
The Carter Administration originally proposed leaving the current program intact, continuing funding at the present level of $6.9 billion annually for a five-year period (October, 1980 - September, 1985). The basic

allocation process was to remain unchanged, with state governments continuing to receive one-third of the program's funding.

With the budget-cutting fervor of recent months, however, the state portion of GRS funding became expendable for several reasons. First, there is strong opposition to any changes in the distribution of GRS funds to local governments. While it is questionable whether *all* local governments need GRS assistance, the fact remains that many localities rely heavily on the quarterly payments to fund a variety of services. Few published reports have suggested that serious consideration has ever been given to abolishing the program entirely. The needs of local governments were also recognized when the President did not recommend eliminating the entire $2.3 billion that would normally be distributed to state governments. Since several states "pass through" their GRS funds to local governments, approximately $600 million was preserved to lessen the impact of the abolition of the state share on the affected localities.

Secondly, many members of Congress have been sensitive to increased criticism of the federal deficit in recent years. A number of states and some local governments were carrying sizable operating fund surpluses in 1977-78, making Congressional sources question the need for "no-strings" federal assistance while substantial pressure existed to cut federal spending. Also, state governments generally have substantial leeway in raising additional revenue, while most cities and counties operate in a more restricted environment.

FIGURE 1
U.S. STATE AND LOCAL GOVERNMENTS OPERATING SURPLUSES OR DEFICITS(—) EXCLUDING SOCIAL INSURANCE FUNDS 1978-1982



*SOURCE: Estimates prepared by Data Resources, Inc., **Data Resources U.S. Review**, March 1980, Appendix, p.II-23.*

National Income Accounts (NIA) data for U.S. state and local government operating surpluses and deficits, however, suggest that the GRS cutbacks may have a dramatic impact on state and local governments. State and local governments did experience sizable budget surpluses during 1977 and 1978. According to a recent analysis that appeared in a Chase Manhattan Bank newsletter, **Business in Brief**, the 1973-75 recession left a number of U.S. state and local jurisdictions with deficits that required new revenue-raising measures to meet the balanced budget requirements in many state constitutions. With the new measures in place, an improving economy and price inflation filled many state and local coffers to record levels by 1977-78.

These surpluses evaporated quickly, however, as state and local governments became faced with rising costs and increased taxpayer resistance through tax limit measures such as California's Proposition 13. Figure 1 shows that the operating surpluses that state and local governments experienced in 1978 have vanished during the past year, and based on estimates prepared by Data Resources, Inc. (DRI), state and local

Continued on page 6

STATE GRS FUNDING *Continued*

governments will experience sizable operating fund deficits over the next few years as the impact of the current economic downturn is felt. The state and local deficits are expected to bottom out at the $13.8 billion level during the second quarter of 1981. An alternative "worst case" scenario -- based on the failure of the entire GRS proposal -- would drive this deficit level to nearly $18 billion during the first half of 1981.

Whatever the outcome of the current debate, the contributions of the GRS program to Texas state finance are underscored in Table 1. Through August of last year, more than $760 million has been received by Texas state government in GRS allocations. An estimated $111.4 million will be received during the current fiscal year. When the final quarterly payment, estimated at $27.8 million, is received in October, state government will have received $900 million in GRS funds since the first check was mailed in fiscal 1973.

The programs and activities that have been the major beneficiaries of these funds are Texas public colleges and universities. Thus, these institutions are the most likely to feel the pinch if the state allocation is not renewed.

Table 2 shows the amount of GRS funding appropriated to the state's institutions of higher learning for the 1980-81 biennium, as well as the percentage of their total appropriations comprised by GRS funds. As the table indicates, the share of appropriations accounted for by GRS monies ranges from 5.3 to 21.1 percent for the colleges and universities listed. The average for all of the institutions shown is 9.2 percent. During the last fiscal year, 90 percent of the expenditures made from these funds were for salaries, wages and other operating expenses.

Thus, when spending questions for the 1982-83 biennium are addressed by the Texas Legislature next January, a number of difficult questions will have to be addressed. If state GRS funding is not renewed, will this revenue be made up and if so, how? Although GRS funding accounted for only 1.2 percent of total state revenue during the last fiscal year, alternative sources to replace it appear scarce. The current revenue forecast prepared in January, 1980, projects an ending general revenue cash balance of between $124 million and $324 million at the end of the 1980-81 biennium. Given the rising cost of state services, this ending cash balance does not appear to be a sufficient source to make up this revenue gap.

The significance of attempts to stretch the state dollar cannot be over-emphasized, especially in the higher education field. Although the Committee heard dire predictions concerning the state revenue outlook for 1982-83 and was aware of the uncertain future of GRS funding, the Special Joint Committee on Higher Education Financing recently endorsed faculty pay raises above the level recommended by the College Coordinating Board in an attempt to restore faculty salaries to their 1969 purchasing power

Continued on page 8

TABLE 1
GENERAL REVENUE SHARING FUNDS
RECEIVED BY TEXAS STATE GOVERNMENTS
FISCAL YEARS 1973-1981

Fiscal Year	GRS Receipts
1973	$127,708,956
1974	97,041,388
1975	97,972,777
1976	103,016,812
1977	110,568,223
1978	114,145,125
1979	112,041,940
1980 est.	111,377,000
1981 est.	27,844,000

TABLE 2
GENERAL REVENUE SHARING APPROPRIATIONS TO TEXAS COLLEGES AND UNIVERSITIES FISCAL YEARS 1980-81
(Amounts in Millions of Dollars)

	General Revenue Sharing Appropriations			GRS As A Percent of Total Appropriations
	1980	1981	1980 -1981	1980-81
Angelo State University	$ 1.0	$ -0-	$ 1.0	5.3%
Corpus Christi State University	1.0	-0-	1.0	8.3
East Texas State University	3.0	1.0	4.0	9.6
Lamar University	3.0	1.0	4.0	8.7
Midwestern State University	1.0	-0-	1.0	5.9
North Texas State University	6.0	1.0	7.0	8.5
Pan American University	3.0	1.0	4.0	13.8
Prairie View A&M University	2.0	1.0	3.0	9.1
Sam Houston State University	3.0	1.0	4.0	9.5
Southwest Texas State University	4.0	1.0	5.0	8.4
Stephen F. Austin State University	3.0	1.0	4.0	10.0
Sul Ross State University	2.0	1.0	3.0	21.1
Tarleton State University	1.0	-0-	1.0	7.0
Texas A&I University	2.0	-0-	2.0	7.5
Texas A&M University	14.0	3.0	17.0	8.8
Texas Eastern University	1.0	-0-	1.0	10.6
Texas Southern University	3.0	1.0	4.0	10.6
Texas Tech University	10.0	2.0	12.0	11.0
Texas Woman's University	4.0	1.0	5.0	9.0
University of Houston	13.0	3.0	16.0	10.8
University of Houston at Clear Lake City	2.0	-0-	2.0	10.0
University of Houston - Downtown College	1.0	-0-	1.0	5.7
University of Texas at Arlington	5.0	1.0	6.0	8.0
University of Texas at Austin	14.0	5.9	19.9	7.3
University of Texas at Dallas	2.0	1.0	3.0	8.6
University of Texas at El Paso	4.0	1.0	5.0	9.3
University of Texas of the Permian Basin	1.0	0.4	1.4	13.1
University of Texas at San Antonio	3.0	1.0	4.0	11.1
West Texas State University	2.0	1.0	3.0	11.6
	$114.0	$30.3	$144.3	9.2%

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STATE GRS FUNDING *Continued*

levels, as well as increased support for organized research. These proposals are reported to cost $270 million over the next biennium.

Federal cutbacks in other grant programs are also likely to intensify competition for state dollars. The Carter Administration also has tagged the Law Enforcement Assistance Administration's (LEAA) grant program for extinction. While the level of funding received for this program is equivalent to only a third of the state's GRS allocation, a coalition of state and local law enforcement officials has begun lobbying at the federal level to save the program and is likely to look to the Texas Legislature for financial help if these efforts are unsuccessful.

Thus, while a $1.7 billion reduction in the federal budget for 1981 may sound miniscule when examining that $600 billion document, it can have significant consequences for state and local finances. A tightened federal budget is likely to place increasing demands on state dollars. This can have important consequences for Texas state finance in the years to come.

--Dan Casey

THE ULLMAN VALUE-ADDED TAX: WHAT IT WOULD MEAN

As dissatisfaction over taxes has risen nationally, the continuing debate over tax reform has become more intense, particularly at the federal level. Congress is currently considering a wide range of alterations in the federal tax system. While most of these proposals involve changes in existing taxes, there has been some support for new types of taxes. One such proposal is H.R. 5665 introduced last October by Rep. Al Ullman, chairman of the House Ways and Means Committee.

The centerpiece of Ullman's proposal is replacement of a portion of current federal income and social security taxes with a "value-added tax" (VAT). Like the Texas sales tax, a VAT taxes consumption rather than income. Unlike the sales tax, which is imposed only on the final sale of a good, the VAT is levied on the value added at each stage of production and distribution. However, because it taxes only the amount of value added (the difference between sales and purchases), rather than full selling price, it avoids a cascade, or tax-on-tax, effect. (For a general introduction to the value added tax concept, see the April 1980 issue of **Fiscal Notes.**)

Under H.R. 5665, a ten percent VAT would be levied on most goods and services. Exceptions would be food, medical care, rents and residential housing, which would be taxed at five percent. The VAT's base would be significantly broader than the Texas sales tax base, affecting many goods not presently taxed by the state.

When he introduced the bill, Ullman estimated that the federal VAT would produce $130 billion annually beginning in calendar year 1981. This new income would offset the following reductions in existing taxes:

- Payroll tax rates would be rolled back to 4.5 percent for both employers and employees from the 6.65 percent rate scheduled for 1981. Cost: $52 billion.

- Personal income tax rates would be reduced, and the current earned income credit program would be expanded. New income tax breaks also would be given to savers. Cost: $50 billion.

- Corporate tax rates also would be cut, including a reduction in the top rate from 46 percent to 36 percent on income exceeding $160,000. Current investment incentive

programs would be expanded. Cost: $28 billion.

Together, the changes will shift about a fifth of the federal tax base from income to consumption.

The purpose of this reshuffling, in Ullman's view, is to reorient the tax system to favor savings and investment over consumption. Lowering personal and corporate tax rates, while raising taxes on spending, would encourage companies and individuals to keep more of their earnings. This, in turn, would lead to higher investment, then increased productivity, lower inflation, and finally increased economic growth.

These are worthwhile goals. In the past decade, there has been a dramatic decline in the U.S. saving rate. Since 1970, the personal-saving rate has slipped from 7.4 percent to less than four percent of after-tax income, lowest among industrial nations. Meanwhile, the rate of capital investment has also declined. In the 25 years up to 1973, business spending on new plants and equipment added about three percent annually to the nation's capital base. Since then, the total has risen only about 1.75 percent a year. Business blames this decline in growth on several factors, including government regulations and inflation; however, one of the most critical factors is the savings slump.

But can the Ullman package reverse these trends? And just as importantly, what are the potential consequences of the new tax structure Ullman proposes? This article examines these and other important questions in the debate over a federal VAT.

VAT's Appeal

Much of the appeal of the Ullman VAT lies in what it replaces--income and payroll taxes. A recent survey by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) found the federal income tax to be the most unpopular tax, beating even local property taxes by a wide margin.[1] There are several reasons for this. Primary among these is the fact that income taxes are highly visible: the taxpayer's paycheck shows how much he is contributing each month, and the necessity of filing an annual return reminds him of the difference in before- and after- tax income. Just as important, though, is the increasing perception among taxpayers that the tax's progressive nature has become illusory. To some degree, this conclusion is supported by the facts. In 1969, for example, the Treasury Department discovered that 600 millionaires had avoided paying any income tax in the previous year.

Social security taxes, too, are viewed as increasingly unfair. They now cut perceptibly into the earnings of middle-income taxpayers, particularly where both the husband and wife work. Rising costs, increasing numbers of recipients, and the insistence that the program be self-supporting seem to promise only more rate increases in the future.

The VAT proposed by Rep. Ullman suffers none of these drawbacks. With its broad base, it would be a prolific and relatively stable revenue source. Moreover, in the form proposed in H.R. 5665, it would be largely invisible to consumers, its payment hidden in the price of the taxed goods and made in small bits on individual purchases. Further, the rate would be a flat ten percent on virtually all goods and would apply uniformly: everyone would pay according to what he spends. And, of course, the VAT offers a means of reducing the unpopular income and payroll taxes.

If, however, the value-added tax is to produce a fifth of federal tax revenue, someone will have to pay something, and it is here that the tax's drawbacks begin to show. Critics have raised a number of potential problems with the tax, but three of these make the prospects of a federal VAT particularly troubling. These include its inflationary potential, regressivity and the administrative problems it would present.

Up the Inflationary Spiral

According to recent surveys, inflation is the chief concern of most Americans today. Curbing inflation is a long-run goal of H.R. 5665. But while it is billed as a cure for inflation, a VAT's initial impact would be inflationary. Imposition of the tax would result in an immediate--and potentially sharp--increase in the

Continued on page 10

[1]*U.S. Advisory Commission on Intergovernmental Relations, **Changing Public Attitudes on Governments and Taxes**, Report S-8, (Washington, D.C., 1979), p. 2.*

THE ULLMAN VALUE-ADDED TAX *Continued*

prices of most consumer goods and services. Virtually everyone, including Rep. Ullman, acknowledges this problem, although there is considerable disagreement over its likely severity.

Examination of the European experience with the VAT provides few clues to its potential effects in the United States. In Europe, the VAT was introduced as a replacement for another type of consumption tax, the turnover tax, which has no counterpart in the U.S.

Rep. Ullman argues that the inflationary impact of the VAT under H.R. 5665 would be partly offset by price decreases stimulated by reductions in other taxes. However, examination of this potential offset indicates it would be highly limited.

The reduction in corporation income tax rates, for example, probably would have no effect on prices, particularly in the short-run. The traditional economic assumption is that the corporate tax is primarily borne by shareholders in the form of reduced earnings. Any reduction in the tax, therefore, would increase returns to shareholders rather than lower prices. However, even if it is assumed that the corporation income tax may eventually be reflected in prices, a tax cut would not automatically translate into equivalent price reductions. One important study, which concluded that businesses pass the tax through to consumers in higher prices, also found that prices fell by much less than the amount of the tax when it was removed.[2]

Similarly, reduction of the personal income tax would have little effect on prices. Instead, it will result in an increase in after-tax income. As we shall see later, this may mitigate the effects of rising prices on some income groups by giving them more money to spend, but it will not influence the price rise itself.

Substitution of the VAT for a portion of the social security tax probably will have some moderating effect on VAT-induced price increases. Nonetheless, as Treasury Secretary G. William Miller noted in his testimony on the VAT last November:

> Reducing the employer portion of the social security tax would tend to reduce business labor costs and possibly prices. Reducing the employee portion..., however, would probably have no effect on the price level. Thus, a value-added tax accompanied by an equivalent reduction in employer and employee social security taxes would result in some increase in the price level.[3]

It is also probable that the inflationary impact of the VAT may go beyond the one-shot price rise produced by its imposition. Since the tax would result in higher business costs due to increased paperwork, these costs are also likely to be reflected in higher prices. Most importantly, though, imposition of the VAT could trigger a chain reaction of wage increases as workers attempt to stay up with rising prices. In fact, this trend is practically guaranteed by automatic cost-of-living escalators in many labor agreements. Significant wage increases would create pressure for new price increases, which would lead, inevitably, to new wage demands--in short, a classic wage-price spiral.

Estimates foresee H.R. 5665 adding anywhere from three to eight percent to the inflation rate. This would be a stiff jolt to an economy already plagued by chronic, high level inflation.

Who Benefits, Who Pays?

Although VAT proponents concede its inflationary effect, they argue that higher prices are consistent with the broad goals of H.R. 5665. In fact, the strongest argument for the VAT is that by taxing consumption and not savings, it would encourage people to put more of their money into the capital markets, which finance a more productive economy.

This argument overlooks an important point. While it is probably true that the VAT will cause some reduction in consumption, a significant percentage of the tax base consists of basic necessities whose consumption is relatively unresponsive to price changes. Where these make up a large percentage of a family's budget, the VAT will

[2] *Marian Krzyzaniak and Richard A. Musgrave, The Shifting of the Corporation Income Tax (Baltimore: John Hopkins Press, 1963), p. 58.*

[3] *G. William Miller, testimony before the U.S. House of Representatives, Committee on Ways and Means, in Department of Treasury, News (November 8, 1979), p. 4.*

Continued on page 15

MAY 1980

TEXAS ENERGY REPORT

BOB BULLOCK, COMPTROLLER OF PUBLIC ACCOUNTS

DRILLING ACTIVITY IN TEXAS

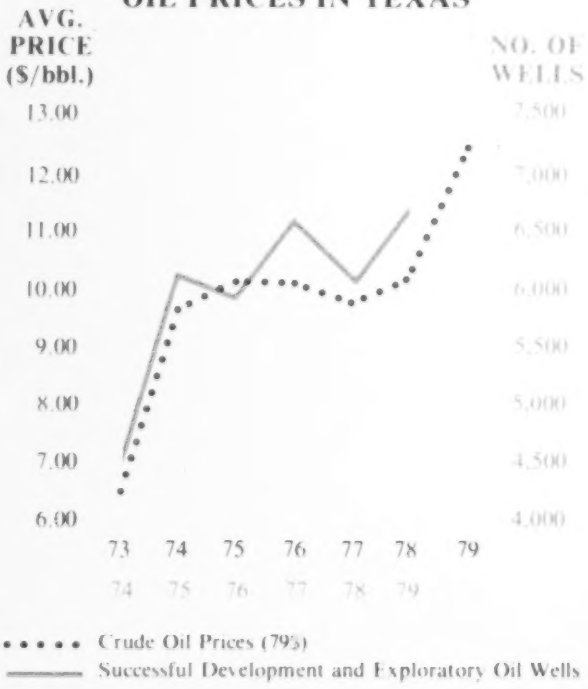
The level of drilling activity in Texas has a profound, yet indirect, influence on state revenue. The state collects production taxes on both crude oil and natural gas, and drilling is a fundamental ingredient of future oil and gas production. Because crude oil and natural gas production taxes accounted for 19 percent of net state tax collections during fiscal year 1979, the health of the drilling industry and state finances are closely tied.

The Influence of Prices on Drilling Decisions

The predominant factor affecting the level of drilling is the potential profitability of oil and gas drilling investments. Profitability is determined in large part by the price for which oil and gas are sold. When average oil and gas prices in 1979 dollars are plotted against successful development and exploratory wells of the following year, the strong correlation between the level of prices and drilling becomes more apparent (see Figures 1 and 2). The one-year lag is adopted to reflect planning, financing, mineral leasing, and equipment ordering delays.

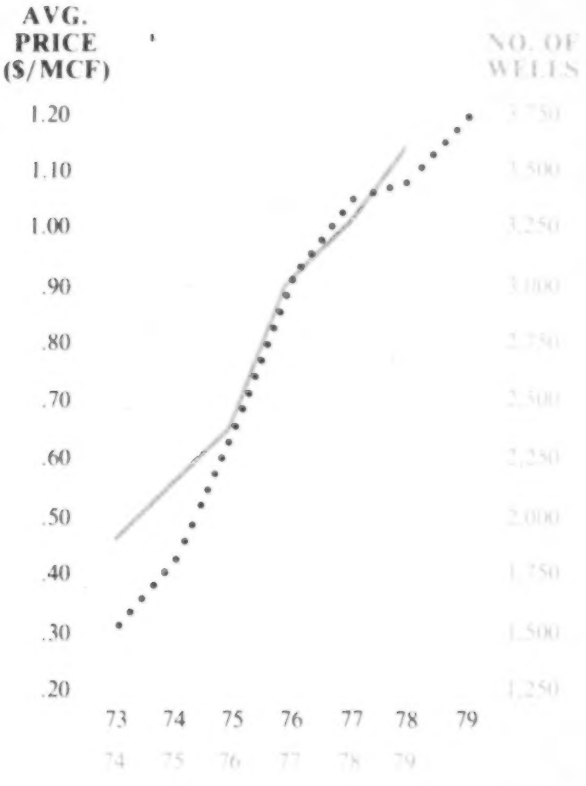
The frequent coexistence of crude oil and natural gas in the same formations results in a "joint-product" nature in drilling for these resources. This factor, coupled with the inability to determine with a high degree of confidence the existence of either oil or gas before an exploratory well is drilled, often results in price changes for one of these resources affecting the drilling for the other. This was obviously the case before the development of substantial natural gas markets in the 1950's. Gas was in excess supply with such low prices that in many instances substantial volumes of gas produced in association with crude oil were vented or flared

FIGURE 1
THE RESPONSIVENESS OF CRUDE OIL DRILLING TO CRUDE OIL PRICES IN TEXAS



rather than sold. Nevertheless, during this period substantial reserves of natural gas were "accidentally" discovered in the more lucrative search for crude oil.

FIGURE 2
THE RESPONSIVENESS OF NATURAL GAS DRILLING TO NATURAL GAS PRICES IN TEXAS



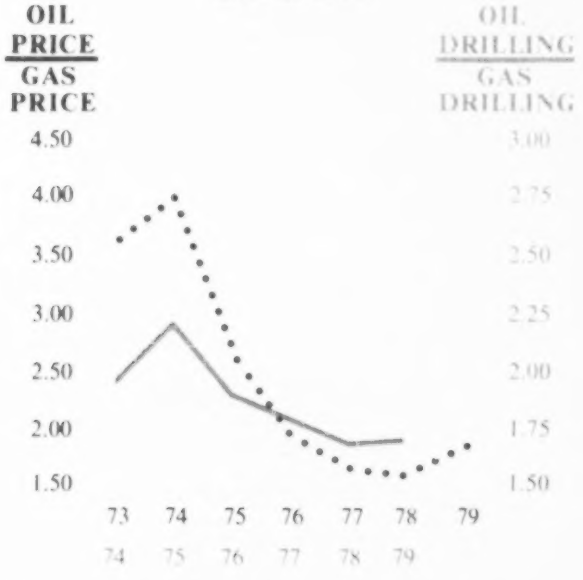
This joint-product relationship has gradually become less significant for Texas as its producing regions become better defined, as advances in seismic equipment produce more accurate information, and as drilling in deeper formations -- which tend to contain more natural gas relative to crude oil -- becomes more economically attractive. These factors tend to make crude oil drilling less responsive to natural gas prices, and vice versa. In other words, crude oil drilling is responsive primarily to crude oil prices and the same holds for natural gas.

This relationship can be shown by plotting the ratio of crude oil to natural gas prices against the ratio of crude oil to natural gas successful development and exploratory drilling of the following year (see Figure 3). As crude oil prices rise relative to natural gas prices, the ratio of crude oil to natural gas prices necessarily will rise. Figure 3 shows that a change in the ratio of crude oil to natural gas prices translates into a change in the same direction for the following year's ratio of crude oil to natural gas drilling. This means a decline in the price of crude oil relative to natural gas will cause a de-emphasis of crude oil drilling relative to natural gas drilling, resulting in a decline in the ratio of crude oil to natural gas drilling.

Regulatory Uncertainty

A nationwide phenomenon in drilling activity which received much publicity was the precipitous

FIGURE 3
THE EFFECT OF RELATIVE PRICE CHANGES ON THE MIX OF CRUDE OIL AND NATURAL GAS DRILLING



decline of rigs in operation during the Winter of 1978 and the Spring of 1979. Texas did not escape this downturn, as evidenced by the 18 percent decline in active rigs between the fourth quarter of 1978 and the second quarter of 1979 (see Table 1). This decline has been largely attributed to the uncertainty generated by the passage of the Natural Gas Policy Act (NGPA) in November, 1978 (**Fiscal Notes,** October, 1979), with minor attention given to the effects of the natural gas surplus and the wet Winter and Spring which made rig movement difficult.

The rig count by itself is not a complete reflection of the effects of the NGPA on drilling activity in Texas. During the same period that active drilling rigs dropped 18 percent, total wells and footage drilled increased 11 percent and 6 percent, respectively (see Table 2). This apparent contradiction can be explained by two factors: an increase in the average footage drilled per active rig and a decline in the average depth per well. In other words, each active rig was drilling more wells which were not as deep.

Average footage per active rig experienced an increase of 29 percent between the fourth quarter of 1978 and the second quarter of 1979 (see Table 3), while the average depth per well declined by 4 percent during the same period (see Table 2). This decline in well depth indicates reluctance on the part of drillers to accept the risks of deeper drilling in the uncertain environment prevailing during the period in which the NGPA was passed and implemented. It should also be noted that during this same time there was regulatory uncertainty attributable to the scheduled change in pricing authority. Under the Energy Policy and Conservation Act of 1975, the President gained complete autonomy on crude oil pricing on June 1, 1979, and there was considerable speculation regarding his crude oil price decontrol plans.

TABLE 1
AVERAGE NUMBER OF ACTIVE ROTARY RIGS IN TEXAS
1977—1979

Calendar Quarter[1]	1977	1978	1979
I	742	837	742
II	769	861	704
III	786	868	770
IV	818	854	865

SOURCE: Hughes Tool Company

[1]In prior issues of Fiscal Notes, these statistics have been reported for quarters of the state's fiscal year (September 1 to August 31).

TABLE 2
TOTAL WELLS AND FOOTAGE DRILLED IN TEXAS
1977—1979

Calendar Quarter	1977			1978			1979		
	Wells[1]	Footage[2]	Average Depth	Wells[1]	Footage[2]	Average Depth	Wells[1]	Footage[2]	Average Depth
I	3,424	18.95	5,534	3,834	19.75	5,151	3,887	21.69	5,580
II	3,821	19.97	5,226	3,865	21.21	5,488	3,581	19.31	5,392
III	3,396	18.00	5,300	3,689	20.26	5,492	4,249	22.24	5,234
IV	3,638	19.76	5,432	3,237	18.18	5,616	4,241[3]	20.63[3]	5,261[3]

SOURCE: "Quarterly Review of Drilling Statistics", API.

[1]Excluding service wells, stratigraphic, and core tests
[2]Millions of feet
[3]Preliminary

Drilling Outlook

The NGPA has been in effect since December 1, 1978, and President Carter's crude oil decontrol schedule has been partially implemented. In addition, the crude oil Windfall Profits Tax has been signed into law. Thus, much of the regulatory uncertainty facing producers has been removed. This, along with significantly higher prices for both oil and gas, makes the outlook for future drilling in Texas very bright.

Because newly discovered crude oil was deregulated on June 1, 1979 (subject to the Windfall Profits Tax beginning March 1, 1980) and newly discovered natural gas will not be deregulated until January 1, 1985 (except for geopressured nethane, coal seam gas, and Devonian Shale), it is quite likely that a change in the relative incentive prices for crude oil and natural gas will occur. This should lead to a strengthening in emphasis on crude oil drilling investments relative to natural gas.

—Larry Buch,
Lloyd Rolen

TABLE 3
AVERAGE FOOTAGE PER ACTIVE RIG IN TEXAS
(In Thousands of Feet)

Calendar Quarter	1977	1978	1979
I	25.5	23.6	29.2
II	26.0	24.6	27.4
III	22.9	23.3	28.9
IV	24.2	21.3	23.9

STATE SEVERANCE TAXES

Thirty-three states collected severance taxes in fiscal 1979, according to the Bureau of the Census. Severance taxes are levies imposed on the removal of natural resources, such as oil, natural gas, other minerals, timber and fish. The following table shows severance tax collections by state for fiscal 1979.

STATE SEVERANCE TAX COLLECTIONS, FY 1979
(In Thousands of Dollars)

Texas	$1,025,550	Michigan	$13,724
Louisiana	511,589	Arkansas	12,502
Oklahoma	280,982	Utah	8,993
Alaska	173,685	Ohio	4,582
New Mexico	159,431	Tennessee	2,155
Kentucky	154,017	Nebraska	1,516
Florida	91,902	Kansas	1,097
Wyoming	87,419	North Carolina	1,013
Minnesota	71,263	Virginia	1,003
Montana	53,919	South Dakota	884
California	48,093	Indiana	673
Oregon	47,625	Idaho	552
Washington	37,802	Wisconsin	362
Mississippi	32,922	New Hampshire	207
North Dakota	25,503	Nevada	54
Alabama	22,281	Missouri	45
Colorado	19,803		

SOURCE: U.S. Bureau of the Census, State Government Tax Collections in 1979, GF79 No. 1 January 1980.

THE ULLMAN VALUE-ADDED TAX *Continued*

not encourage savings so much as it will make it more difficult to make ends meet. But won't income and payroll tax reductions at least offset this effect? Unfortunately, the answer is no, since most of the benefits of the Ullman plan do not accrue to those hardest hit by the VAT.

These problems relate to the single most persistent criticism of the tax: its regressivity. As Rep. Ullman admits, "Those with limited budgets typically would pay proportionately more [under a VAT] than those with larger incomes."[4] In reality, this trend holds true anywhere on the income scale, as Table 1 reveals. Using Bureau of Labor Statistics data, the table shows the percentage of income in various classes that would be taken by a VAT like Rep. Ullman's.

The VAT burden would be more than twice as high on low income persons as those in the highest income class. Since the tax covers virtually all consumer expenditures, it would be much more regressive than the sales taxes commonly used by the states.

TABLE 1
ESTIMATED VALUE-ADDED TAX PAYMENTS AS A PERCENTAGE OF TOTAL MONEY INCOME

Income Class	Tax as a Percentage of Income
$ 4,000- 5,999	8.44%
6,000- 7,999	7.42
8,000- 9,999	6.74
10,000-14,999	5.99
15,000-24,999	5.21
25,000 and over	3.87
Weighted Average	6.06%

SOURCE: Computed from U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey: Integrated Diary and Interview Survey Data: 1972-73 (Washington, D.C., 1978).

TABLE 2
ESTIMATED EFFECTS OF H.R. 5665 TAX CHANGES ON A FAMILY OF FOUR AT VARIOUS INCOME LEVELS
(Taxes as a Percentage of Income)

Family Income	Income Tax Cut[1]	Payroll Tax Cuts	VAT[2]	Net Change
$ 10,000	- 1.7%	-2.2%	+6.2%	+ 2.3%
15,000	- 2.8	-2.2	+6.7	+ 1.7
20,000	- 2.3	-2.2	+6.5	+ 2.0
30,000	- 1.6	-2.2	+6.0	+ 2.2
50,000	- 2.1	-1.3	+5.3	+ 1.9
100,000	- 2.0	-0.6	+4.4	+ 1.8
200,000	- 5.7	-0.3	+4.2	- 1.8
1,000,000	-13.8	-0.1	+3.6	-10.3

SOURCE: Robert S. McIntyre, "Ullman's Tax Idea," People and Taxes, Vol. VII, No. 11 (November 1979), p. 5
[1]Income tax figures do not include proposed tax breaks for interest and dividends or changes in the earned income credit.
[2]Distributional effects differ slightly from those shown in Table 1 because Table 1 covers all families, while Table 2 focuses on a "typical" family of four.

To offset these effects, Rep. Ullman proposes tax credits for the elderly and the poor, reduced rates on necessities, and higher welfare payments. But as Table 1 indicates, these measures will not be entirely

Continued on page 16

[4]*Al Ullman, quoted in Robert S. McIntyre, "Ullman's Tax Idea," People and Taxes, Vol. VII, No. 11 (November 1979), p. 4.*

THE ULLMAN VALUE-ADDED TAX *Continued*

successful. Further, the $28 billion in business tax cuts will not directly benefit low and middle income citizens, and substitution of the VAT for a portion of the social security tax would only replace one regressive tax with another. As Treasury Secretary Miller concluded in his testimony: "The regressivity of the value-added tax can be moderated, but not eliminated, by special measures."[5]

As an illustration of this point, Table 2 shows one estimate of the effects of H.R. 5665 on a family of four at different income levels. According to this analysis, the tax would increase the total tax burden on all families up to the $100,000 income level. Put simply, the people hit hardest by the change would be those least able to pay.

To deal with this objection, Rep. Ullman reportedly plans to modify his proposal further by zero-rating (not taxing) food, housing and medical supplies. As noted, these items would be taxed at a five percent rate under H.R. 5665. If made, the changes would reduce the tax burden somewhat, but they would not eliminate the regressivity of the tax, as Table 3 illustrates.

The Administrative Burden

Even if its inflationary impact and uneven burden are accepted as necessary evils, there is one other problem with the current federal VAT proposal. That is its administrative complexity. Even the very general descriptions of the tax's operations which have appeared in the news media illustrate its complexity as they trace the various tax payments and credits, step by step, from raw material to retailer. But confusing as these illustrations may be, they do not begin to deal with the complexities certain to be introduced by the various special rules and exemptions included in the bill.

For example, home sales and rents would be taxed at a five percent rate (or possibly zero-rated if the proposal is modified)--but only if the buyer or tenant uses his property as a "principal residence." What is a principal residence? The bill does not specify, meaning new definitions and guidelines would have to be developed. Similarly, food would receive special treatment, but only when sold at the retail level. "Non-retail" sales by farmers and fishermen would be tax exempt, but other non-retail food sales presumably would be taxed at the full ten percent. Businesses with sales under $10,000 would not have to collect the VAT. Such rules will be necessary, but they add to the administrative complexity of the tax.

TABLE 3
COMPARISON OF VALUE-ADDED TAX PAYMENTS AS A PERCENTAGE OF TOTAL MONEY INCOME

Income Class	H.R. 5665	H.R. 5665 with Food, Housing and Medical Supplies Zero-Rated
$ 4,000- 5,999	8.44%	6.25%
6,000- 7,999	7.42	5.71
8,000- 9,999	6.74	5.08
10,000-14,999	5.99	4.47
15,000-24,999	5.21	3.92
25,000 and over	3.87	2.98
Weighted Average	6.06%	4.40%

SOURCE: Computed from U.S. Department of Labor, Bureau of Labor Statistics. Consumer Expenditure Survey: Integrated Diary and Interview Survey Data: 1972-73 (Washington, D.C., 1978).

Strangely enough, proponents of the VAT often cite ease of administration as a major advantage, with the European experience offered as proof. Indeed, research does indicate that there were real administrative benefits to the adoption of a VAT in most European countries. But what is often ignored is the fact that the VAT replaced an even more complicated turnover tax. Thus, when most European countries adopted their VAT, the administrative mechanism for handling a complex, multistage tax was already in place.

No similar mechanism exists in the United States. One would have to be created. Since the VAT in H.R. 5665 would replace no other tax completely, new auditors and enforcement personnel would have to be hired; new returns would have to be developed; new rules and regulations would have to be promulgated; and, of course, a new body of tax law would have to evolve.

Treasury Department estimates offer some idea of

[5] *Miller, p. 9*

the VAT's potential administrative effects. In his testimony, Secretary Miller estimated the tax would involve between 10 and 15 million taxpayers. Even ten million taxpayers would add about 30 percent to the number of returns filed with the Internal Revenue Service, assuming quarterly returns are required, according to Miller. A 30 percent increase in 1978 IRS operating costs would have amounted to over $580 million--for comparative purposes, an amount larger than collections from any Texas state tax except the sales tax. Again, these costs would not be offset by savings from other taxes, since all existing taxes would remain in effect.

Yet, this total omits the potentially most economically damaging aspect of a VAT: its requirements on business. A "tax invoice" showing the amount of VAT would have to accompany virtually every one of the millions of business sales occurring daily across the nation. Preparation of quarterly VAT returns would involve time consuming calculations and the tracking of numerous tax laws, rules and regulations. Also involved would be billions of sales receipts, computer printouts and other records that would have to be accumulated and stored for years by taxpayers. No estimate has been prepared showing the potential impact of these requirements.

Savings, Capital Formation and Economic Growth

The final question that must be addressed is how well the Ullman proposal would meet its goal of stimulating savings and investment. Admittedly, any tax on consumption puts a premium on savings, since income that is saved--that is, not consumed--is tax free. But while substitution of a value-added tax for income taxes would increase savings, it is not clear how significant such an increase would be.

Earlier it was noted that many low and moderate income persons already spend most of their income on consumption. Necessities leave little room for discretionary purchases for many people. It is possible much of the income "freed up" by the proposed income tax cuts will go for the same level of consumption of now more expensive goods.

This view seems to be supported by research done by Richard Goode in the early 1970s.[6] He found that substitution of a federal consumption tax for the personal income tax would increase savings by about six percent of yield--$7.8 billion for the projected $130 billion VAT. This appears to be significant, but it represents only 2.4 percent of 1978 average national gross private savings.

Even if Goode's estimate is an understatement, there is some doubt as to whether the potential increase in savings would be significant enough to outweigh the other, negative aspects of VAT. As economist Joseph Pechman notes: "If additional saving is needed, a much more direct and effective method would be to reduce the federal deficit. This would increase national savings dollar for dollar and would not require the enactment of a new tax, which would not only be regressive but would also add to the costs of tax collection and compliance."[7]

There are also ways of increasing savings through the current tax system. A simple way would be to exempt at least from income taxation or offer premiums to savers. In the U.S., interest income is sometimes considered unearned and taxed at high rates. Yet in France, savers can deposit up to $9600 and receive a maximum 6.5 percent interest tax free. In Japan, where the personal savings rate is over 20 percent, savers do not have to pay taxes on interest from deposits up to $65,000. A number of bills are already pending in Congress along these lines. The recent windfall profits tax bill contained an income tax break on the first $200 in interest income of single persons and $400 for married couples.

Saving, of course, is not the final objective of the Ullman plan. The intention is to increase the rate of savings to make more investment possible, and thus, to accelerate economic growth. While this seemingly is the direction in the H.R. 5665 would work, evidence of its likely effectiveness is limited. For example, Rep. Ullman points to the European countries with value-added taxes as examples the U.S. should follow. But while these nations do have higher "capital formation" rates as a percentage of Gross National Product (GNP) than the U.S., researchers have found that this difference explains

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[6] *Richard Goode, **The Individual Income Tax** (Washington, D.C.: The Brookings Institution, 1976), p. 67.*

[7] *Joseph Pechman, "Value Added Taxes: The Case Against," **Tax Notes** (January 22, 1979), p. 83.*

Continued on page 18

THE ULLMAN VALUE-ADDED TAX *Continued*

little of the variance in growth rates.[8]

Looking at the distribution of the tax burden among various sources in the U.S. and other countries also reveals little correlation between historical growth rates and consumption taxes. Japan, for example, led the world in growth during the 1960s and 1970s, but it, like the U.S., has relatively low taxes on goods and services. Over 50 percent of its tax revenue comes from income taxes, about the same as the U.S. On the other hand, both the Italian and French tax structures have high percentages of consumption taxes, but much lower growth rates.

Moreover, several important investment incentives, including investment tax credits and rapid depreciation write-offs, already exist under current law. As recently as 1977, in fact, Rep. Ullman's Ways and Means Committee gave in-depth attention to the new ways of stimulating capital formation through tax policy.[9] A number of ideas were analyzed including expansion of existing incentives; integration of the corporate and individual income taxes; reductions in corporate tax rates; and indexing of taxes for inflation. Any of these measures could be achieved without the fundamental restructuring of the tax system implied in H.R. 5665.

[8]*U.S. Advisory Commission on Intergovernmental Relations,* ***The Value-Added Tax and Alternative Sources of Federal Revenue,*** *Report M-78 (Washington, D.C., 1973), p. 13.*

[9]*U.S. House of Representatives, Committee on Ways and Means,* ***Tax Policy and Capital Formation*** *(Washington, D.C., 1977).*

The Outlook

Rep. Ullman held hearings on H.R. 5665 at the end of last year. During the hearings many of the problems discussed in this analysis were raised by witnesses. In response to these objections, Rep. Ullman is reportedly considering modifications to the bill, the most important of which would be the zero-rating of food, housing and medicine. A revised version of the bill is expected later this year.

However, as the foregoing analysis shows, there are significant problems with the VAT concept which even massive changes in H.R. 5665 are unlikely to correct. As noted earlier, the exclusion of food, housing and medicine would reduce the overall burden on all income classes, but it would not appreciably change the basic regressive pattern of the tax. In any case, the tax would still pose the threat of an immediate and possibly long-term inflationary shock to the economy. And, of course, no amount of exemptions can remove the administrative burden that a VAT would impose, particularly if it is an addition to the existing tax system and not a replacement of another tax.

It is difficult to argue with Rep. Ullman's belief that the federal government needs to take actions to encourage investment and productivity. But as we have seen, there are options available under the existing tax system.

--Billy Hamilton

Editor's Note:

As this article went to press, Rep. Ullman announced that he was indeed introducing a revised value-added tax bill, called the Tax Restructuring Act of 1980 (H.R. 7015). The new VAT is essentially the same as the one discussed in this article but with an exemption of food, housing and medical costs. VAT receipts would be used to make reductions of $43 billion in social security taxes, $40 billion in the individual income tax, and $32 billion in the corporate income tax -- a total of $115 billion. Also included in the bill is a provision limiting federal spending to a fixed percentage of gross national product.

REVENUE BY PROGRAM CATEGORY ABSTRACT

Receipts from the Natural Resources category, which includes oil and natural gas production taxes and royalty income, totaled $185 million in March. Accounting for 23.1 percent of all state income for the month, income from the Natural Resources category totals $1.1 billion for the year. This represents an increase of $318.7 million or 39.8 percent above last year.

Revenue from the taxes, licenses and fees levied on the Insurance industry reached $18.2 million in March. This brought the year-to-date total to $25.5 million, representing a $20 million or 363.8 percent increase over the same period last year. The sizable increase results from a change in the method of processing these receipts by the State Board of Insurance, rather than an actual revenue gain.

Transportation revenue reached $143.6 million in March, raising the fiscal 1980 total to $968 million. This represents a $312.7 million or 47.7 percent boost above the same period a year ago. Federal funds for highway programs have been reclassified from the "Other" category, accounting for most of the increase above 1979 receipt levels.

The Personal Property category includes the sales, inheritance and property taxes. March receipts for this category totaled $120.5 million, accounting for 15.1 percent of all state receipts. Year-to-date revenue from this category is $1.4 billion, representing a $176.1 million or 14.5 percent increase above a year ago.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenue		Year-to-Date September 1979—March 1980			
	March 1980	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Transportation	$143.6	18.0%	$ 968.0	16.5%	$+312.7	+ 47.7%
Personal Property	120.5	15.1	1,390.7	23.7	+176.1	+ 14.5
Business Regulation	7.7	1.0	50.6	0.9	+ 9.5	+ 23.0
Insurance	18.2	2.3	25.5	0.4	+ 20.0	+363.8
Utilities	1.2	0.1	86.1	1.5	+ 11.9	+ 16.0
Alcoholic Beverages	17.6	2.2	120.8	2.1	+ 12.4	+ 11.4
Tobacco	26.1	3.2	182.1	3.1	+ 7.9	+ 4.6
Natural Resources	185.0	23.1	1,118.5	19.1	+318.7	+ 39.8
Agriculture	0.3	0	2.2	0	+ 0.1	+ 3.7
Parks and Wildlife	2.5	0.3	21.0	0.3	+ 0.4	+ 1.7
Education	68.5	8.6	358.6	6.1	+ 31.9	+ 9.8
Health	13.3	1.7	82.8	1.4	+ 5.2	+ 6.7
Welfare and MHMR	83.1	10.4	574.9	9.8	+ 46.6	+ 8.8
Other	111.9	14.0	883.7	15.1	- 10.9	- 1.2
TOTAL REVENUE[2]	$799.4	100.0%	$5,865.5	100.0%	$+942.4	+19.1%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE REVENUE ABSTRACT

State revenue totaled $799.4 million in March, raising the fiscal 1980 total to nearly $5.9 billion. This represents an increase of $942.4 million or 19.1 percent above a year ago.

Tax collections reached $398.2 million during the month. Tax receipts for the first seven months of the fiscal year total $3.2 billion, a $505.2 million or 18.8 percent boost above last year.

Oil and natural gas production tax collections continue to show sizable gains above 1979. Oil production taxes accounted for $72.2 million in March, with fiscal 1980 receipts of $408.3 million representing a $149.3 million or 57.6 percent hike above the year-earlier period. Natural gas production levies brought in $64.7 million during the month. Fiscal 1980 natural gas tax revenue is $413.5 million, running $105.7 million or 34.3 percent ahead of last year.

Taxes levied on insurance companies resulted in March receipts of $17.7 million. Year-to-date insurance tax revenue is $19.4 million, accounting for a $16.4 million or 546.7 percent increase above the seven-month period ending in March of last year. Most of this increase results from a change in the method of processing these returns by the State Board of Insurance, rather than an actual increase in tax receipts.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

Tax Collections by Major Tax	Monthly Revenue		Year-to-Date September 1979—March 1980			
	March 1980	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Sales Tax	$110.5	27.8%	$1,323.3	41.5%	$+177.4	+ 15.5%
Natural Gas Production Tax	64.7	16.3	413.5	13.0	+105.7	+ 34.3
Motor Fuels Taxes	37.6	9.4	283.5	8.9	+ 0.8	+ 0.3
Oil Production Taxes	72.2	18.1	408.3	12.8	+149.3	+ 57.6
Motor Vehicle Sales Tax	35.9	9.0	252.6	7.9	+ 18.1	+ 7.7
Cigarette and Tobacco Taxes	26.0	6.5	181.7	5.7	+ 8.0	+ 4.6
Corporation Franchise Tax	4.9	1.2	17.0	0.5	+ 4.0	+ 30.7
Alcoholic Beverage Taxes	16.8	4.2	114.5	3.6	+ 12.1	+ 11.9
Insurance Companies Taxes	17.7	4.4	19.4	0.6	+ 16.4	+546.7
Utility Taxes[2]	1.2	0.3	57.3	1.8	+ 8.6	+ 17.6
Inheritance Tax	6.6	1.7	47.1	1.5	+ 5.6	+ 13.5
Ad Valorem (Property) Tax	2.7	0.7	17.6	0.6	- 7.9	- 31.0
Telephone Tax	0	0	28.8	0.9	+ 3.3	+ 12.9
Other Taxes[3]	1.4	0.4	24.3	0.8	+ 3.9	+ 19.1
TOTAL TAX COLLECTIONS[4]	$398.2	100.0%	$3,188.8	100.0%	$+505.2	+ 18.8%
Revenue by Source						
Tax Collections (detail above)	$398.2	49.8%	$3,188.8	54.4%	$+505.2	+ 18.8%
Federal Funds	220.3	27.6	1,473.7	25.1	+194.2	+ 15.2
Interest Income	80.3	10.0	580.5	9.9	+134.3	+ 30.1
Licenses and Fees	43.8	5.5	252.8	4.3	+ 53.4	+ 26.8
Land Income: Rents, Royalties, Sales	47.6	6.0	290.8	5.0	+ 51.9	+ 21.7
Other Revenue Sources[5]	9.2	1.2	78.8	1.3	+ 3.3	+ 4.4
TOTAL REVENUE[4]	$799.4	100.0%	$5,865.5	100.0%	$+942.4	+ 19.1%

[1] Excludes some revenue not cleared through the Comptroller's Office.
[2] Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax.
[3] Includes the Hotel-Motel, Cement, and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4] Totals may not add due to rounding.
[5] Patient Maintenance and Support Fees, Grants, Donations, and Miscellaneous Revenue

STATE EXPENDITURES BY OBJECT ABSTRACT

Foundation School Program grants were the largest object of state spending in March, with disbursements of $225.4 million accounting for 25.5 percent of total expenditures. Year-to-date Foundation Program grants total $1.6 billion, a 21 percent hike above fiscal 1979.

Salaries and wages of state employees reached $185 million for the month, raising the fiscal 1980 total to $1.2 billion. This represents an increase of $115.6 million or 10.2 percent above a year ago.

Public assistance and medical care for indigent Texans amounted to $106.6 million during the month. Fiscal 1980 welfare disbursements of $716.5 million exhibited a $41.2 million or 6.1 percent increase above the first seven months of fiscal 1979.

Other personal services--retirement and social security costs are the principal items--totaled $75.5 million in March. The fiscal 1980 total for this category is $507.9 million, a 29 percent boost over fiscal 1979. This sizable increase can be attributed principally to three factors: increased contributions for teacher retirement, state employee insurance and social security. Personal services account for 8.5 percent of all year-to-date expenditures.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1979—March 1980			
	March 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
Salaries and Wages	$185.0	20.9%	$1,248.3	20.9%	$+115.6	+10.2%
Other Personal Services	75.5	8.5	507.9	8.5	+114.1	+29.0
Consumable Supplies and Materials	22.4	2.5	145.6	2.4	+ 18.9	+14.9
Current and Recurring Operating Expenses	35.4	4.0	232.3	3.9	+ 14.6	+ 6.7
Assistance and Medical Care for the Needy	106.6	12.0	716.5	12.0	+ 41.2	+ 6.1
Foundation School Program Grants	225.4	25.5	1,616.8	27.1	+280.4	+21.0
Other Public Education Grants	51.2	5.8	282.7	4.7	+ 8.9	+ 3.3
Grants to Higher Education	59.9	6.8	287.4	4.8	+ 2.1	+ 0.7
Other Grants	24.2	2.7	194.7	3.3	+ 17.8	+10.1
Payment of Principal on Indebtedness	1.1	0.1	4.0	0.1	+ 0.2	+ 5.1
Payment of Interest and Other Claims	1.8	0.2	30.7	0.5	+ 1.8	+ 6.1
Capital Outlay for Highways	70.2	7.9	487.2	8.2	+181.4	+59.3
Capital Outlay for Land and Buildings	13.2	1.5	82.2	1.4	+ 8.0	+10.8
Other Capital Outlay	12.9	1.5	136.2	2.3	+ 32.3	+31.1
TOTAL EXPENDITURES[2]	$884.9	100.0%	$5,972.4	100.0%	$+837.3	+16.3%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

Continued on page 23

STATE EXPENDITURES ABSTRACT

State expenditures were $884.9 million in March, boosting year-to-date disbursements to almost $6 billion for all state funds. This represents a $837.3 million or 16.3 percent increase above the same period a year ago.

Education continues to be the major function of state government, with half of each state dollar spent to support state and local education. Education outlays totaled $442.9 million in March. This raises the fiscal 1980 total to $2.9 billion, a 14.6 percent increase above the first seven months

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures		Year-to-Date September 1979—March 1980			
	March 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 15.8	1.8%	$ 108.2	1.8%	$+ 22.9	+26.8%
Business Regulatory Commissions	4.8	0.5	34.2	0.6	+ 3.8	+12.6
Legislative	1.8	0.2	13.4	0.2	- 0.7	- 5.2
Judicial	2.1	0.2	14.9	0.2	+ 2.5	+20.0
TOTAL	$ 24.5	2.7	$ 170.7	2.8	$+ 28.5	+20.0
SERVICES						
Welfare	$135.7	15.3%	$ 923.7	15.5%	$+ 51.8	+ 5.9%
Mental Health, State Homes and Corrections	44.3	5.0	293.0	4.9	+ 30.6	+11.7
Health and Sanitation	13.8	1.6	88.3	1.5	+ 6.3	+ 7.7
Law Enforcement	8.0	0.9	58.8	1.0	+ 7.2	+13.9
TOTAL	$201.8	22.8	$1,363.8	22.9	$+ 95.9	+ 7.6
IMPROVEMENTS						
Highway Maintenance & Construction	$111.8	12.6%	$ 764.1	12.8%	$+227.2	+42.3%
Natural Resources	7.9	0.9	53.1	0.9	+ 3.4	+ 6.9
Parks and Monuments	4.3	0.5	29.9	0.5	+ 2.4	+ 8.6
TOTAL	$124.0	14.0	$ 847.1	14.2	$+233.0	+37.9
EDUCATION						
Support to State and Local Education	$442.9	50.1%	$2,929.6	49.1%	$+373.1	+14.6%
State Contribution to Teacher Retirement	34.9	3.9	245.4	4.1	+ 61.3	+33.3
TOTAL	$477.8	54.0	$3,175.0	53.2	$+434.4	+15.9
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 24.2	2.7%	$ 194.7	3.3%	$+ 17.8	+10.1%
Payment of Public Debt	2.9	0.3	34.6	0.6	+ 1.9	+ 5.8
Social Security Contribution	21.7	2.5	125.9	2.1	+ 22.5	+21.8
State Contribution to Employee Retirement	7.3	0.8	54.7	0.9	+ 3.0	+ 5.8
Miscellaneous	0.6	0.1	6.0	0.1	+ 0.4	+ 8.8
TOTAL	$ 56.7	6.4	$ 415.9	7.0	$+ 45.6	+12.3
TOTAL EXPENDITURES[2]	$884.9	100.0%	$5,972.4	100.0%	$+837.3	+16.3%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT *Continued*

of fiscal 1979.

Welfare spending is the second largest category of state expenditures. March welfare expenditures of $135.7 million have raised the fiscal 1980 total to $923.7 million. This accounts for 15.5 percent of total state spending to date and is an increase of $51.8 million or 5.9 percent above last year.

Highway maintenance and construction costs totaled $111.8 million in March. Year-to-date highway spending is $764.1 million, 12.8 percent of all state expenditures. Highway expenditures are running 42.3 percent above a year ago. This compares with an 11 percent annual increase in fiscal 1979.

RECENT TAX RULES *Continued*

METROPOLITAN TRANSIT AUTHORITY SALES TAX

.001 Effect of Rules and Regulations; Permits and Certificates; Exclusion of Certain Sales of Qualified Retailers. Any retailer who is responsible for collecting the San Antonio MTA sales tax may exclude individual sales of $.09 or less in reporting and paying the tax if 50 percent or more of his total receipts arise from such sales. The retailer's records must conclusively establish that 50 percent or more of receipts are from sales of $.09 or less to obtain written approval from the Comptroller. If, during any reporting period, the retailer's records fail to establish eligibility, the tax for that period must be paid at the rate of one-half of one percent on all sales, including those of $.09 or less. If the retailer is not required to collect city sales tax, the total sales price must be $.11 or less. Effective March 19, 1980. No fiscal implications are expected.

SALES TAX

.057 Gratuities. This rule has been amended to include definitions of "voluntary gratuity," "mandatory gratuity

Continued on page 24

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue[2]	Special Funds	Total Cash
Beginning Cash Balance March 1, 1980	$ 112.5	$ 2,227.6	$ 2,340.1
Revenue and Expenditures			
Revenue	$ 143.5	$ 655.8	$ 799.4
Expenditures	371.2	513.7	884.9
Net Income (or Outgo)	$(227.6)	$ 142.1	$ (85.5)
Net Interfund Transfers and Investment Transactions	$ 143.1	$ (164.1)	$ (21.1)
Total Transactions	$ (84.6)	$ (22.0)	$ (106.6)
Ending Cash Balance March 31, 1980	$ 27.9	$ 2,205.6	$ 2,233.5

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. New amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

[2]The General Revenue Fund cash balance includes $525.5 million transferred from Special Funds, as authorized by S.B.978.

charge," "reasonable mandatory gratuity charge," and "employees who customarily and regularly provide the service upon which the charge is based." All voluntary gratuities and reasonable mandatory gratuity charges are excluded from the sales price of taxable items. The mandatory gratuity charge must be separated from the sales price of the meal, identified as a gratuity, and disbursed to employees providing the service. If any portion is retained by the employer, the entire gratuity will be subject to the sales tax. The retailer must maintain records using one of two methods to indicate that the full amount of mandatory gratuity charges was disbursed to qualified employees. Effective March 28, 1980. No significant fiscal implications are expected.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Intrastate Sales Gals.	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1978								
January	88.7	$ 797.4	627.2	$542.9	719.6	14.5	117.8	$ 733.6
February	80.7	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	90.3	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	86.0	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	88.2	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	85.2	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	85.6	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	85.0	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	83.7	792.6	544.4	608.4	852.5	17.2	158.1	1,046.8
October	87.3	782.7	549.4	583.9	710.6	13.4	137.2	691.9
November	83.6	813.0	543.1	555.6	870.0	17.8	134.7	889.5
December	85.1	795.1	570.7	553.9	773.7	12.8	134.6	759.2
1979								
January	83.2	815.7	597.3	529.6	817.1	14.5	134.5	767.2
February	76.4	812.6	516.0	608.8	754.4	7.2	106.7	898.4
March	84.6	813.7	546.9	667.3	538.0	11.0	132.7	719.4
April	79.9	834.1	492.2	600.4	799.8	14.8	138.2	930.5
May	82.9	853.0	538.0	656.4	787.5	15.4	137.2	1,040.9
June	79.8	894.7	517.6	657.3	810.1	15.7	141.0	997.3
July	81.7	959.1	531.4	674.9	792.5	17.4	144.6	887.9
August	80.2	950.3	547.1	694.8	750.6	14.6	113.3	912.3
September	77.4	1,271.7	582.7	763.3	867.0	19.7	159.4	1,018.9
October	69.9	1,085.2	603.0	789.9	746.5	14.1	157.3	915.9
November	68.7	1,213.5	563.5e	738.2	798.8	20.9	128.3	847.4
December		1,066.8	567.2e	771.4	743.1	15.0	131.3	827.7
1980								
January		1,452.7	581.1e	790.2	863.6	14.7	135.0	866.1
February		1,359.3	596.0e	810.6	734.9	12.6	131.2	844.4
March		1,415.6	617.4e	864.3	675.0	14.1	131.0	947.8

[1]Estimates based on tax collections in months shown.
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Fiscal Notes

Bob Bullock, Comptroller of Public Accounts **Office of Planning and Research**

ISSUE 80:8 **June, 1980**

INFLATION'S NOT WHAT IT USED TO BE

In April of last year, Patrick Caddell of Cambridge Survey Research sent President Carter a memo concerning a poll that had just been completed. The memo is said to have resulted in the Camp David "domestic summit" and the subsequent Cabinet shake-up in July. The poll showed a deep pessimism among Americans and a surge in public cynicism about "the futility of elections and the inefficacy of government." No explanation could be found for the declining public morale except "the corrosive effects of persistently high inflation."

A year has passed since the Caddell memo, and despite the efforts of the Carter Administration, inflation rages on. In fact, conditions have worsened. In 1979, the national inflation rate was 11.3 percent as measured by the Consumer Price Index (CPI), the highest one-year jump since the 1940s. During the first months of 1980, however, inflation was surging ahead at an annual rate approaching 18 percent.

With the national economic situation deteriorating, President Carter on March 14 announced a new set of anti-inflation measures aimed at slowing the price spiral. He proposed cutting more than $15 billion in federal spending and pledged a balanced budget in fiscal 1981. He also ordered a $4.62 a barrel fee on imported oil, partly to raise revenue to balance the budget and partly to encourage conservation by increasing the price of gasoline at the pump. However, this measure was blocked by congressional action. Finally, using powers granted by Congress in 1969, he authorized the Federal Reserve Board (Fed), the nation's central bank, to impose new restraints on consumer and business credit, particularly on unsecured consumer borrowing such as credit card purchases.

These new policies supplement earlier Carter Administration attempts to hold down inflation through voluntary wage and price guidelines. The guidelines were originally issued in late 1978 and called for limiting wage increases to seven percent annually and price increases to 5.5 percent, ceilings which could not be maintained since present and anticipated inflation rates were much higher. The new Carter policies continue the guidelines but relax the standards to a range of 7.5 to 9.5 percent.

The new measures also follow and expand on independent actions taken last October by the Federal Reserve. At that time, the Fed raised its lending rate, the so-called discount rate, a full percentage point; imposed new controls on banks to restrict the amount of money they can lend; and changed the way it regulates the flow of money into the economy to restrain the growth of money and credit. The ultimate goal of these moves was to cool inflationary demand pressures in the economy by making borrowing more difficult.

Like the Federal Reserve's actions, President Carter's package is also aimed at reducing demand within the economy. The tax measures and credit control will do this by reducing the amount of money available for consumer spending. The federal spending reductions and the balanced budget will also reduce demand pressures to some extent. The

Continued on page 2

INFLATION *Continued*

federal government is, after all, the nation's largest single consumer and frequently competes with other consumers for available goods and services.

Will the Carter program work? Everyone has an opinion, but no one can say with certainty. The truth is inflation today is far more complex than in the past, and traditional approaches have thus far proved inadequate in dealing with it. To understand why this is so, it is useful to examine what inflation is and what the experts say about its underlying causes.

What Is Inflation?

In its most basic sense, inflation is simply a continuing rise in the general level of prices. If, for example, food prices alone increased while other prices fell by an offsetting amount, that would not be inflation. Inflation occurs when all prices on average are moving upward over an extended period of time.

Although inflation is simply defined, its causes are less easily pinpointed. In the early part of the century, most economists viewed inflation largely as the result of demand for goods and services growing faster than available supplies. This form of inflation is known as **demand-pull** and is commonly defined as "too many dollars chasing too few goods."

War provides a classic example of demand-pull inflation. People are put to work producing war materials, which are bought by the government. Income and employment are high, creating a demand for consumer goods and services, but they are scarce because of war production. As a result, the prices of the consumer goods and services rise.

Indeed, the origins of the current bout of inflation are often traced to demand-pull factors, specifically the Johnson Administration's decision to fight the war in Vietnam and fund Great Society programs without raising taxes to cover the escalating costs. That decision pumped more than $40 billion in deficit-financed government spending into the economy in the late 1960s--a time when demand was already high. The result: inflation rose from 1.7 percent in 1965 to 5.9 percent in 1970. Since that time, the federal government has repeatedly run deficits. Combined with periodic commodity shortages and the acceleration of consumer and business credit, this has swollen demand and added to the inflationary pressures in the economy.

The Wage-Price Spiral

Demand-pull factors alone do not completely explain today's inflation, however. There have been periods of high unemployment and sluggish consumer demand when there was also relatively high inflation, the 1974-75 recession being a case in point. In such instances, the upward pressure on prices may be maintained by what are called **cost-push factors**.

The most important cost-push is the interplay of wages and prices, a process known as the **wage-price spiral**. Workers demand higher wages to catch up with past inflation but in so doing reduce profits. This in turn sets off price increases to restore profit margins, and these increases are eventually reflected in renewed wage demands by workers--who also happen to be consumers--continuing the cycle.

Although the example above starts with a wage increase, there is no agreement about whether wages follow prices or vice versa. However, it is not necessary to pick a culprit to recognize the existence of the spiral. In fact, the absence of a culprit is part of

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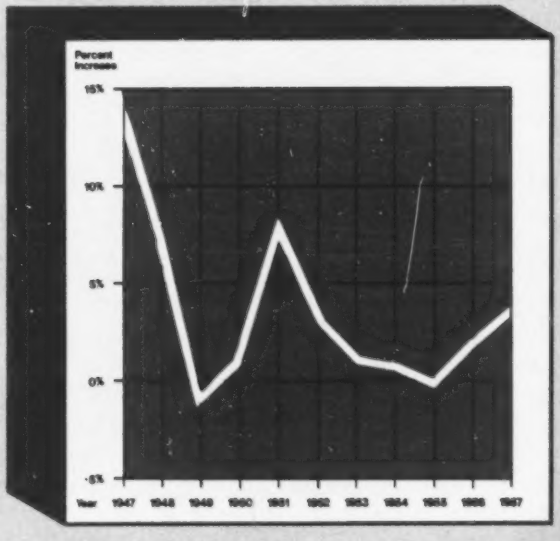


SOURCE: Computed from U.S. Department of Labor, Bureau of Labo

its nature. Individual workers or even individual unions cannot break the spiral on their own, nor can individual companies.

Since the 1930s, this task has been left to the federal government, which has attempted to control inflationary pressures by reducing the supply of money and credit in the economy (monetary policy) or by curbing federal spending or increasing taxes (fiscal policy). Tightening monetary policy makes money for borrowing scarcer and more costly, thereby reducing spending and bringing it into balance with the supply of available goods. Reduced federal spending relieves demand directly, while increased taxes reduce the amount of money people have available for spending.

The U.S. traditionally has used its monetary and fiscal policies to treat inflation on a "stop-go" basis. When inflation rates are up, the government steps on the fiscal and monetary brakes to bring prices down. The result is a drop in economic growth and, sometimes, an actual decline in economic activity--recession. A recession reduces demand and cools inflation, but of course, it also has a number of undesirable effects: business activity falls, profits drop and unemployment increases. Usually before a recession becomes too painful, the government begins releasing the monetary and fiscal restraints, stimulating demand and economic growth but also stirring up inflation again.

Until the late 1960s, this formula was relatively effective in keeping inflation at low levels, as Figure 1 shows. The U.S. inflation rate averaged only 1.6 percent a year between 1947 and 1967. Since 1967, however, the rate has averaged seven percent annually and is now more than twice that. Even the two major recessions in the 1970s were unable to slow the upward spiral of inflation significantly.

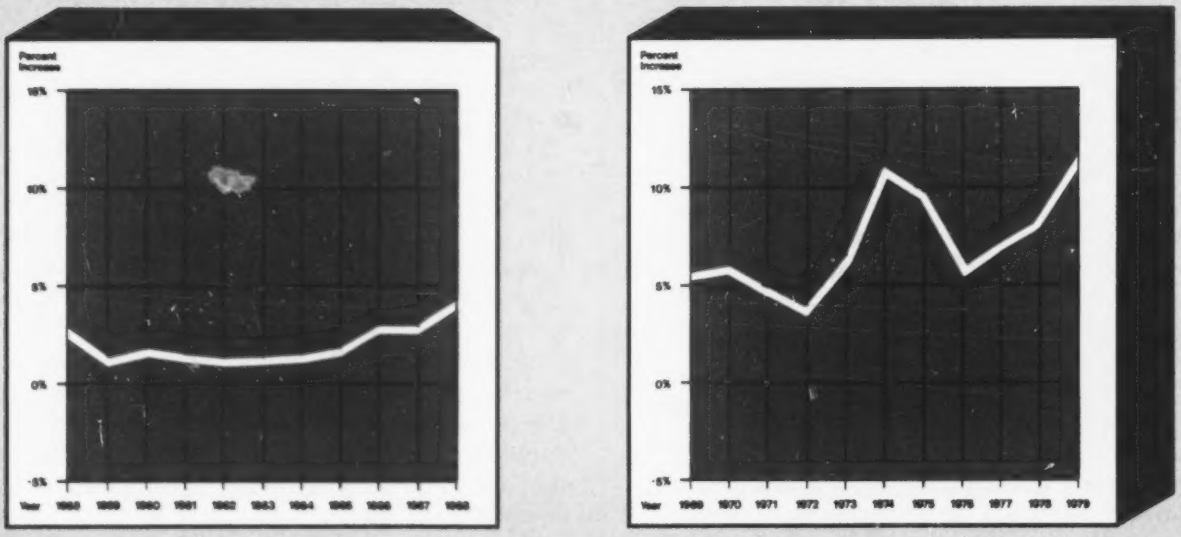
What happened? Why can't we return to the relative price stability of the 1950s? The simple answer is that conditions now are very different than 25 years ago, and these differences have greatly altered the inflation equation. The next section examines some of the more important differences.

A Different World

One obvious difference is oil. The "energy crisis" is first and foremost an oil crisis. In October 1973, the official price of Saudi Arabian light crude, the benchmark oil used by the Organization of

Continued on page 4

FIGURE 1
INCREASES IN THE CONSUMER PRICE INDEX
1947-1979



Statistics, Handbook of Labor Statistics 1978 (Washington, D.C., 1978); and Monthly Labor Review, Vol. 103, No. 2 (February 1980), p. 93.

INFLATION *Continued*

Petroleum Exporting Countries (OPEC), was $3.01 a barrel. Then came the Arab oil embargo and accompanying price increases. By January 1974, the price had reached $11.65 a barrel and has been climbing ever since. Price increases in the past year have pushed the cost of imported oil to around $30 a barrel. Because of the large amounts of oil imported into the U.S., this trend has affected prices in virtually every part of the economy.

The spectacular rise in energy prices is only the most obvious example of a general trend toward higher raw material prices. During the 1950s and 1960s, these prices held relatively stable or actually declined as new sources opened up. This situation helped offset rising profit margins and wages during the period. Since 1967, however, prices for virtually all raw materials have doubled, adding to the basic cost of most goods and to the rate of inflation.

Another difference today is the weakened condition of the dollar in world money markets, a problem which first began to be felt acutely with the end of the dollar's gold backing in the early 1970s. In 1970, the dollar would buy about four West German marks, very much the same as in 1960 or even 1950. At this writing, one dollar brings less than two marks. To a greater or lesser degree, the dollar has also declined against other major currencies.

The dollar's declining value aggravates inflation by raising the price of foreign goods imported into this country. Of course, one effect of these higher prices is to reduce some foreign purchases, but purchases of other goods--like oil--have proved less responsive to price increases. Higher prices of imported goods have been translated into higher wage and cost pressures, contributing to the general upward spiral of wages and prices.

Also separating the current inflation from that of the fifties and sixties is the decline in national productivity--commonly defined as output per worker hour. It is generally accepted that rising wages are inflationary unless matched by increased output, since they raise the unit cost of labor, a major component of production costs. The 1970s were marked by a major decline in U.S. productivity growth. During the first 20 years after World War II, private sector productivity grew at an annual rate of 2.5 percent. From 1965 to 1973, the increase fell to 1.5 percent annually. Since 1973, annual growth has averaged less than one percent and actually declined in 1979. Many explanations have been offered for this decline, ranging from increases in the number of relatively inexperienced women and teenagers entering the work force to the effects of federal business regulations and tax policy on savings and investment.

Meanwhile, wage rates have grown at a somewhat faster clip as workers bargain to keep up with inflation. Contributing to this trend is the increasingly frequent inclusion of cost-of-living adjustment clauses (COLAs) in wage contracts. These clauses tie worker salaries to changes in consumer prices and have widened the disparity between wage increases and productivity gains.

Inflationary Expectations

Another significant problem in dealing with today's inflation is the increasingly widespread perception that it is here to stay and at continuing high rates. These inflationary expectations present a major problem for any anti-inflation policy which, like President Carter's, is aimed at curbing inflation by reducing demand. Having come to expect inflation as a matter of course, consumers are not deterred by higher prices because they believe prices can only rise in the future.

These beliefs have fundamentally changed the spending habits of many Americans. Unlike every other cycle of inflation since World War II, consumer spending has remained high despite rising prices and government policies designed to reduce demand. In fact, until very recently, it has been accelerating. From 1977 to 1979, while the inflation rate increased from 6.5 to 11.3 percent, the savings rate fell from 5.1 to 3.3 percent of disposable income, by far the lowest rate among major industrial nations. This means Americans are now spending almost 97 percent of their income.

Much of the recent flood of consumer buying has been financed with credit. U.S. public and private debt has grown rapidly in recent years. For example, Table 1 shows the growth in consumer installment debt during the 1970s. Note particularly the growth in revolving credit totals. Add to this more than a **trillion** dollars in mortgages and corporate debt, and it is easy to see why the U.S. has been characterized as the "Debt Economy."

TABLE 1
CONSUMER INSTALLMENT CREDIT OUTSTANDING, 1970-79[1]
(Billions of Dollars)

Year	Total	Auto	Revolving	Other
1970	$105.5	$ 36.3	$ 5.1	$ 64.1
1971	118.3	40.5	8.5	69.3
1972	133.2	47.9	9.7	75.6
1973	155.1	53.8	11.7	89.6
1974	164.6	54.3	13.7	96.6
1975	172.4	57.2	15.0	100.2
1976	194.0	67.7	17.2	109.1
1977	230.8	82.9	39.3	108.6
1978	275.6	102.5	47.1	126.0
1979	311.3	115.1	55.5	140.7
Average Annual Increase	11.6%	12.3%	25.3%	8.3%

*SOURCE: Council of Economic Advisors, **Economic Report of the President, 1980** (Washington D.C., 1980), p. 280; Board of Governors of the Federal Reserve System.*

[1]Figures are for amounts outstanding at the end of December in each year.

The Federal Inflation Machine

The federal government has also consistently spent beyond its means in the last two decades, even in periods of high demand and rising prices when conventional economic theory calls for a balanced budget or a budget surplus. The trend in federal budget deficits since 1974 is shown in Table 2.

This pattern of deficit spending has been supported until recently by Federal Reserve monetary policy. In an attempt to hold down interest rates, the Fed in the mid-1970s bought a large portion of the government's added debt, paying for it by creating new bank reserves and money. This was highly inflationary, however, since it amounted to paying for the debt by printing new money.

This policy shows up in the money supply growth rates in Table 2. Growth of currency and money in checking accounts, the nation's basic money supply, accelerated from 4.3 percent in 1975 to 7.9 percent in 1977--well above target rates set by the Fed. However, even these figures understate the growth

Continued on page 6

TABLE 2
FEDERAL DEFICITS AND MONEY SUPPLY GROWTH
1974-1979

Year	Annual Federal Budget Deficit (Billions)	Increase in the Basic Money Supply[1]
1974	$ 4.7	+4.7%
1975	45.2	+4.3
1976	66.4	+6.2
1977	44.9	+7.9
1978	48.8	+6.7
1979	27.8	+5.7

*SOURCE: Council of Economic Advisors, **Economic Report of the President, 1980*** (Washington, D.C., 1980), pp. 284-285, 291.

[1]Growth in currency and amounts in checking accounts, an overall measure called M1 by the Federal Reserve.

in purchasing power that occurred, since they do not include many new types of credit like bank automatic overdraft protection plans. In any case, the amount of money and credit jumped, and as we have seen, so did spending. What didn't go up--at least not rapidly enough--was the supply of goods to meet the demand. This condition of rising demand for limited goods pushed inflation still higher.

The Debate Over Cures

What, then, can be done to deal with the myriad of factors which underlie today's inflation? That, unfortunately, is another area where the experts don't agree.

One popular idea is that inflation can be halted simply by stopping the growth in the money supply and ending federal deficit spending. In a sense, this is true. If applied with sufficient strength for a long enough period, tough monetary and fiscal restraints probably could "cure" inflation. But it would be done only at the expense of a massive recession and possibly a depression. Obviously, the reality of today's social and political environment makes such a hard-line approach virtually impossible.

This is not to say, however, that there is no need for more federal monetary and fiscal restraint. One measure most experts now agree on is the need to more closely control money supply growth to reduce demand. Indeed, the strategy of the Federal Reserve since last October has focused on controlling the growth of money--and letting interest rates fluctuate widely--largely with this goal in mind. The President's package of higher taxes, lower federal spending and tighter credit also builds on this objective.

Still, many experts have come to believe that policies geared toward manipulating demand alone are inadequate. They argue for new--or at least more dramatic--remedies. Among these, two which have received considerable attention lately are wage and price controls and so-called "supply-side" policies.

At a time when wages and prices are rising rapidly, the idea of simply freezing them through a system of mandatory controls has a certain attractiveness for many people. A recent New York **Times**-CBS poll, for example, showed that 56 percent of those surveyed favored at least temporary controls. Proponents argue that inflationary expectations are building inflation's momentum, and the only way the momentum can be broken is by stopping it at its source.

The Carter Administration and many private economists argue that controls do far more harm than good. The mere anticipation that controls may be imposed can cause labor unions and corporations to push for higher wages and prices before they are outlawed. And if controls are imposed, the administrative problems can be overwhelming. The ultimate result, say critics, is that distortions in the economy mount, leading to major inefficiencies, shortages and finally a buildup of pressure on wages and prices which explodes when controls are lifted.

America's past experience with controls has been mixed. During World War II, controls held the rise in consumer prices to just five percent, but not without the buildup of underlying pressures. When controls were lifted in 1946, prices shot up, pushing the Consumer Price Index 70 percent above prewar levels by the end of the decade.

Controls were reapplied in 1951 during the Korean War. Although the rate of inflation fell from around ten percent in early 1951 to about two percent in 1952, reduced demand pressures were as much responsible as the wage and price ceiling. When controls were lifted in 1953, prices did not shoot up as they did in the 1940s since a mild recession had reduced demand enough to keep prices stable.

A much worse situation occurred in 1971 when the Nixon Administration imposed the most recent set of controls. While the Nixon controls did lower inflation in 1971 and 1972 by about one percent, the rate began to climb again in 1973, and by the time the program ended in 1974, the inflation rate was 11 percent, more than six percent higher than in the precontrol period. At best, controls appear to work for short periods. Indeed, most of those advocating controls now view them as lasting only six months to a year at the most.

On the Supply Side

Some economists--and an increasing number of politicians--are calling for a shift in anti-inflation policy from measures that reduce demand, such as those in the President's plan, to measures aimed at increasing supply and the efficiency of production.

Proponents argue that current government policies provide the wrong incentives to cure inflation. The government, in their view, has motivated Americans to spend too much, primarily because many federal tax policies and business regulations discourage saving and capital investment.

Like many experts these days, supply-side economists favor restrained money creation. They also favor cutting federal spending to free more money for the private sector. Along these same lines, they argue that what is needed is not tax increases, like the President's ill-fated oil import fee, but tax **cuts**, especially on savings, investments and business income. Also favored are the softening or scrapping of government regulations that absorb capital but produce no output.

Some of this supply-side thinking has spilled over into the Congress. The current Jones-Conable bill, for example, would accelerate depreciation schedules for machinery and equipment, allowing businesses to recoup their investment costs faster. The recently passed windfall profits tax bill contained a provision exempting from the income tax the first $200 in interest income for single persons and $400 for married couples. Farther down the road are proposals for sizable personal and corporate income tax cuts and even larger tax breaks for savers.

Supply-side economics is not without its detractors, though. A major criticism is that the policies would favor the rich and savers at the expense of workers and consumers. There is general agreement that the tax cut proposals would make the federal system less progressive.

Thus far, the supply-side approach has been little used. Consequently, there is little evidence for or against it. The first major supply-side measure adopted by Congress was the 1978 reduction in capital gains taxes. The law amounted to a cut of 20 percent or more on profits from the sale of stocks and other capital assets. Proponents of the reduction predicted that lowering the taxes would drive up the stock market, thereby lowering interest rates and making it easier for business to raise capital. Economic forecasts predicted increases in stock values of 20 to 40 percent. The day the bill became law, the Dow-Jones Industrial Average was 901.40. At this writing, the Dow-Jones Average is around 830. Meanwhile, interest rates have climbed to more than double 1978 levels.

So the debate goes on. And it is likely to go on for some time to come. However, there is one point on which almost all the experts agree. That is that there is no simple solution to the inflation problem and probably no painless one. It has taken 12 years to get into the current inflationary dilemma. It is unrealistic to expect the President, the Congress or the Federal Reserve to bail us out in a matter of weeks or even months. What is most needed is a coherent and coordinated approach to the problem and enough time for it to work.

--Billy Hamilton

FAMILY MIGRATION TO TEXAS

The characteristics of new migrants are of considerable importance because the economic status and age distribution of the state's residents determine both the type of services that will be demanded of government and the revenue that will be available. For example, an older population may demand more resources devoted to programs such as medicaid and less to programs such as primary and secondary education than would a younger one.

Each month the Census Bureau obtains information on socio-economic and demographic characteristics from a representative nationwide sample of households. This survey is referred to as the Current Population Survey or CPS. This survey of approximately 68,000 households was used to obtain estimates of the demographic and economic characteristics of recent migrants to Texas. These are defined as families who lived here in March 1979 but indicated that their place of residence on March 1, 1975, was outside of Texas. The characteristics of these families are compared to families who were residing in Texas both in March 1979 and on March 1, 1975.

Based on the March 1979 survey, 4.5 million U.S. families had changed their state of residence since 1975. An additional 777,000 families responded that they resided overseas in 1975.

Continued on page 8

MIGRATION *Continued*

Of the 4.5 million families who changed their state of residence, 323,000 migrated to Texas (See Table 1). This represents approximately 7.2 percent of the families making interstate moves. An additional 72,000 families who lived overseas in 1975 claimed Texas as their state of residence in March 1979. This represents 9.3 percent of all families emigrating or returning to the U.S. from abroad. It should be noted that in 1979, Texas contained only 5.9 percent of all families residing in the U.S. Of the 3,428,000 families residing in Texas in March 1979, 11.5 percent had moved here since 1975.

The areas contributing most to the migration into Texas were the non-Texas South and the West (see Figure 1). These two regions accounted for 27.8 and 24.8 percent, respectively, of the total migrants to Texas. The North Central region contributed 83,000 families to Texas. Families whose previous residence was outside the U.S. were the fourth largest group of migrants to Texas. Only 32,000 families, or 8.1 percent of the new residents, came from the Northeast

Ninety-two percent of the 395,000 families who did not reside in Texas in 1975, but did in March 1979, were classified by the Census Bureau as white. Under the Bureau of Census definition, persons of Spanish Origin may be classified as being of any race. In Texas, all families headed by a person of Spanish Origin were racially identified as white. However, while families which indicated that their ethnic origin was Spanish comprised 16.3 percent of all families residing in

Continued on page 10

TABLE 1
TEXAS FAMILIES IN 1979, BY REGION OF RESIDENCE IN 1975
(In Thousands)

		Region of Residence, 1975						
	Total	Northeast	North Central	Non-Texas South	West	Abroad	Total Migrants	Resident of Texas 1975
Total	3,428	32	83	110	98	72	395	3,033
Race and Spanish Origin								
White	3,043	31	83	100	89	61	364	2,679
Anglo	2,485	28	75	95	78	37	313	2,172
Spanish Origin	558	3	8	4	11	24	50	507
Black	359	1	-	11	6	-	18	341
Other	26	-	-	1	2	10	13	13

*SOURCE: Annual Demographic File for 1979, **Current Population Survey**, March 1979. Conducted by Census Bureau for the Bureau of Labor Statistics.*

Note: Totals may not add due to rounding.

TABLE 2
INCOME DISTRIBUTION OF TEXAS FAMILIES IN 1979 BY RESIDENCE IN 1975

	Total (in thousands)	Percentage of Total				
		Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000-$24,999	$25,000 and Above
All Families						
Total, 1979	3,428	9.5%	17.0%	16.1%	30.4%	27.1%
Area of Residence in 1975:						
Out-of-state	395	7.4	19.0	15.6	32.7	25.3
Within state	3,033	9.8	16.7	16.1	30.1	27.3
Anglo Families						
Total, 1979	2,485	5.7	15.1	14.7	31.8	32.7
Area of Residence in 1975:						
Out-of-state	313	4.7	18.4	13.7	33.8	29.3
Within state	2,172	5.8	14.7	14.8	31.5	33.2
Black Families						
Total, 1979	359	27.1	18.2	15.3	25.9	13.5
Area of Residence in 1975:						
Out-of-state	18	15.9	20.6	35.6	27.8	—
Within state	341	27.7	18.1	14.2	25.8	14.2
Spanish Origin Families						
Total, 1979	558	15.4	25.0	23.2	25.4	11.0
Area of Residence in 1975:						
Out-of-state	50	20.4	27.6	22.4	16.7	12.8
Within state	507	14.9	24.7	23.3	26.3	10.8

SOURCE: Annual Demographic File for 1979, Current Population Survey, March 1979. Conducted by the Census Bureau for the Bureau of Labor Statistics.

NOTE: Totals may not add due to rounding. Excludes the "other" category which is included in the total for All Families.

MIGRATION *Continued*

the state in 1979, they made up only 12.7 percent of the families migrating into Texas. While one-eighth of the migrating Anglo families resided abroad in 1975, almost 50 percent of the Spanish Origin families reported a foreign country as their place of residence in 1975. The majority of Black families reported the non-Texas South as their 1975 place of residence.

In general, families migrating into the state had incomes similar to those who were here in both 1975 and 1979. Table 2 presents the percentage distribution of Texas families by their residence in 1975 and by five income classes. Over 55 percent of the families in Texas had 1979 incomes above $15,000. However, while over 60 percent of the migrating Anglo families had reported incomes above $15,000, only 27.8 percent of the Black and 29.5 percent of the Hispanic migrating families reported similar incomes. Black migrating families were concentrated in the middle income classes, while Hispanic families moving into the state were concentrated in the two lower income groups.

The families immigrating into Texas were also younger than their nonmigrating counterparts (see Table 3). Almost 55 percent of these families were headed by someone less than 35 years of age compared with 29.7 percent of the nonmigrating families. While 31.6 percent of the nonmigrating families were headed by someone over 55 years old, only 10.1 percent of the families moving to Texas were headed by an individual over 55.

-- Stuart Greenfield

FIGURE 1
FAMILY MIGRATION TO TEXAS BY REGION
MARCH 1975 - MARCH 1979

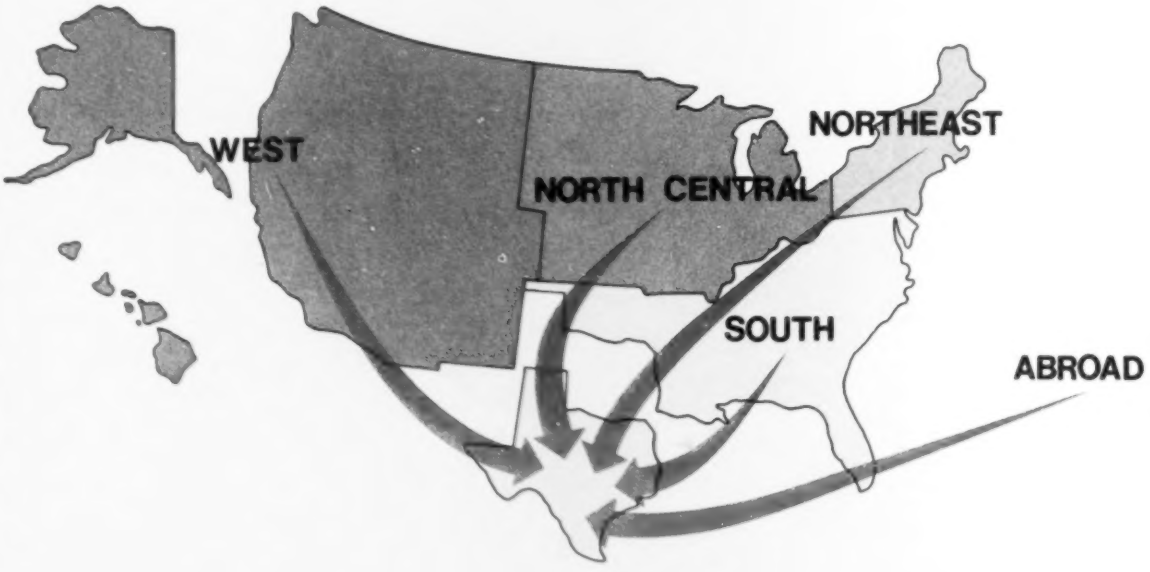


TABLE 3
AGE DISTRIBUTION OF HEADS OF TEXAS FAMILIES, 1979 BY AREA OF RESIDENCE IN 1975

	Total (in thousands)	Percentage of Total					
		14 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 years and over
All Families							
Total, 1979	3,428	7.2%	25.4%	20.6%	17.7%	15.3%	13.7%
Area of Residence in 1975:							
Out-of-state	395	12.3	42.5	20.7	14.5	4.5	5.6
Within state	3,033	6.6	23.1	20.6	18.2	16.8	14.8
Anglo Families							
Total, 1979	2,485	6.6	24.1	19.4	18.1	17.4	14.4
Area of Residence in 1975:							
Out-of-state	313	11.5	39.9	21.8	17.1	3.8	5.9
Within state	2,172	5.9	21.9	19.0	18.2	19.3	15.7
Black Families							
Total, 1979	359	7.4	27.0	24.7	17.0	9.4	14.5
Area of Residence in 1975:							
Out-of-state	18	—	86.7	—	—	13.3	—
Within state	341	7.8	23.8	26.0	17.9	9.2	15.3
Spanish Origin							
Total, 1979	558	10.1	28.4	23.0	17.3	10.5	10.7
Area of Residence in 1975:							
Out-of-state	50	22.6	33.5	24.9	5.5	6.7	6.8
Within state	507	8.8	27.9	22.8	18.5	10.9	11.1

SOURCE: Annual Demographic File for 1979, Current Population Survey, March 1979. Conducted by the Census Bureau for the Bureau of Labor Statistics.

NOTE: Totals may not add due to rounding. Excludes the "other" category which is included in the total for All Families.

RISING GASOLINE PRICES -- AN INTERNATIONAL PERSPECTIVE

In the past year and a half, gasoline prices in the United States have more than doubled. In January 1979, the average price of gasoline for all grades in the United States was 69.8¢ compared to the January 1980 price of $1.10 – an increase of over 57 percent. Will the price increase by as much next year? Can American motorists cope with such high prices? The answers to these questions, respectively, are "Possibly" and "They'll have to."

Some optimists try to downplay the recent sizable gasoline price increases and possible future increases by reminding U.S. consumers that many industrial nations have been living with high gasoline prices for some time. A recent worldwide survey by the Associated Press notes that the price of $1.10 per gallon would be a real bargain in some nations.

As the accompanying table indicates, motorists in some nations pay more than $3.00 per gallon for gasoline. In addition, the survey indicates that in some cases price hikes are a recent phenomenon. In Denmark, for example, prices have risen from $1.45 to $2.55 per gallon in a year, a 75.9 percent increase. Even in Britain, which is considered oil-rich because of the North Sea fields, prices have climbed from $1.64 to $2.34 in a year's time, a 42.7 percent increase. In Israel, the annual increase has been from $1.70 to $2.60 per gallon or 52.9 percent.

Price-per-gallon comparisons among countries do not present a complete picture, however. For example, they do not show the number of vehicles in use, vehicle miles, average fuel efficiency of vehicles and other factors that influence gasoline consumption. Still, these comparisons are useful in determining the reactions of motorists to price increases. In some countries, such as Denmark, the price boosts have precipitated a greater use of mass transportation. However, as a spokesman for the Belgian Petroleum Federation noted about motorist reaction in his country, "When prices go up, people may drive less for a brief while, but they soon go back to their normal driving habits."

Another of the differences in gasoline prices among countries deals with the role of taxation in the price of fuel. In the United States, the average combined federal-state government tax per gallon is 13 cents. (The combined federal and state tax in Texas is nine cents – four cents federal and five cents state.) In contrast, taxes account for 53 percent of the price of gasoline in Belgium and 64 percent of the price in Italy.

The United States has avoided raising the federal gasoline tax to curb consumption. However, this past spring President Carter proposed an import fee on crude oil and gasoline. In attempting to curb imports, this fee also had reduction of gasoline consumption as a major goal. Under the President's plan, the fee would have been passed on to consumers in the form of a ten-cent per gallon increase at the pump. However, imposition of the fee was blocked by Congress.

American motorists have already responded to recent price hikes and the prospect of even higher prices by reducing demand, as evidenced by the increase in the level of gasoline reserves from a year ago. Still, whether U.S. motorists will continue to reduce consumption this summer and how any further price increases will influence consumption patterns remain to be seen.

– Roger Vallejo

GASOLINE PRICES - WINTER 1979-80

Country	Price Per Gallon
Belgium	$3.11
Britain	2.34
Bulgaria	4.32
Hong Kong	1.72
Israel	2.60
Italy	3.02
Kenya	2.16
Mexico	.65
Saudi Arabia	.29
United States	1.15

SOURCE: New York Times, February 1, 1980.

THE WINDFALL PROFITS TAX: END OF THE BEGINNING

There have been few domestic policy debates in U.S. history as divisive and as seemingly unresolvable as the one over energy policy. This debate began in earnest in the early 1970s, and yet at the beginning of the 1980s, the country still has not developed a comprehensive approach to its energy problems.

The most recent example of the difficulty in shaping a coherent energy policy is provided by the windfall profits tax, which President Carter signed into law on April 2. The signing culminated a yearlong battle over whether there should be a tax at all and if so, how it should work.

The tax was originally proposed by the Carter Administration on April 5 of last year as part of a plan to phase out federal price controls on domestically-produced crude oil. Controls were already scheduled to expire automatically on October 1, 1981, but the President decided to begin eliminating them in stages to minimize the inevitable shock to the economy and to encourage increased domestic production. Gradual decontrol began on June 1 of last year and is scheduled to bring all domestic prices to world levels by the original October 1981 termination date.

As part of the Carter plan, the windfall profits tax was supposed to prevent oil companies from realizing an unearned bonanza from higher prices and to provide a source of funding for new federal energy programs. Under the Carter proposal, most of the windfall tax receipts were to be set aside in a special trust fund to pay for mass transit programs, low-income energy assistance, and a greatly expanded synthetic fuels program.

While many of the features of the President's proposal were retained in the final bill, the tax which emerged from the long

Continued on page 14

TABLE 1
WINDFALL PROFITS TAX RATES

Category	Basic Tax	Independent Producers
Tier 1: Production from sites developed before 1979. (Merges what was "old" and "new" oil.) Also includes Alaskan North Slope oil.	Rate: 70% Base: $12.81/barrel plus inflation	Rate: First 1,000 bbls. per day – 50%; over 1,000 bbls. – 70% Base: Same as basic
Tier 2: Production from stripper wells and from national petroleum reserves.	Rate: 60% Base: $15.20/barrel plus inflation	Rate: First 1,000 bbls. per day – 30%; over 1,000 bbls. – 60% Base: Same as basic
Tier 3: Newly discovered oil, incremental tertiary oil, and heavy oil (specific gravity of 16 degrees API or less).	Rate: 30% Base: $16.55/barrel plus inflation plus 2%	Rate: Same as basic Base: Same as basic

Exempt: State and local government, some charitable and educational institutions, Indian tribes and newly discovered Alaskan oil from northern production areas.

SOURCE: U.S. Congress, "Conference Report on H.R. 3919, the Crude Oil Windfall Profit Tax Act of 1980", 96th Congress, 2nd Session (March 1980).

WINDFALL *Continued*

months of congressional debate is significantly different from Mr. Carter's original concept. Projected revenue has swelled to almost double the original estimates, the tax burden on different types of oil and different types of producers has been altered, and perhaps most importantly, significant changes have been made in how the mammoth tax windfall will be spent.

The Tax

One thing the "windfall profits" tax is not -- and was never meant to be -- is a tax on profits. As conceived by the Carter Administration and enacted by Congress, it is essentially an excise tax levied on the difference between the controlled and decontrolled price of oil. The President originally proposed a uniform 50 percent tax rate, but as Table 1 shows, the final bill levies widely varying rates on several categories or "tiers" of oil.

The heaviest tax burden falls on so-called Tier 1 oil, which includes production from fields discovered prior to 1979. The rationale for the higher rate is simple: it is assumed this oil would have been produced even at lower controlled prices, making the economic "windfall" from decontrol greater on it than on new discoveries and hard-to-produce oil.

The basic Tier 1 tax is 70 percent of the difference between the oil's selling price and a base price set by Congress at the May 1979 price -- averaging $12.81 per barrel -- with periodic adjustments for inflation. The bill also provides a special 50 percent Tier 1 tax rate on the first 1,000 barrels of daily production by the nation's 12,000 independent producers. These producers -- both large and small -- are engaged primarily in the search for and production of oil and normally do not have extensive refining operations or retail outlets like the so-called "majors." However, they drill a majority of the nation's exploratory wells.

For Tier 1 and all other categories, the "windfall profit" subject to tax is reduced by the amount of state severance taxes paid on the value of oil production up to a maximum 15 percent tax. (Texas' oil production tax rate is 4.6 percent of value.)

Table 2 illustrates how the windfall tax would be calculated for a barrel of Tier 1 oil in Texas, assuming a selling price of $30 a barrel and a base price of $13.54 (the $12.81 Tier 1 base price adjusted for inflation to the first quarter of 1980). Note the difference in the basic tax and the special rate paid by independents.

Tier 2 oil is taxed at a 60 percent rate on any price above a $15.20 per barrel base price, again adjusted for inflation. Included in the tier are oil from stripper wells, which produce ten or fewer barrels per day, and production from national petroleum reserves. Again, independents pay a reduced tax rate on their first 1,000 barrels of daily production, in this case, 30 percent.

The lowest tax rate is imposed on Tier 3 oil, which includes oil discovered since January 1, 1979, hard-to-extract heavy oil, and oil recovered using costly tertiary methods. The tax rate is 30 percent on prices above $16.55 a barrel. There are no special provisions for independents.

The act also provides a number of exemptions. From Texas' standpoint, the most important is

TABLE 2
CALCULATION OF WINDFALL PROFITS TAX ON TIER 1 OIL[1]

	Basic Tax	Independent Producers
Price per barrel	$30.00	$30.00
Adjusted base price, March 1980	-13.54	-13.54
	$16.46	$16.46
State tax adjustment (4.6% tax rate x $16.46)	- .76	- .76
"Windfall profit" subject to tax	$15.70	$15.70
Tax rate	x 70%	x 50%
Windfall tax due	$10.99	$ 7.85

[1]According to Department of Energy estimates, about 80 percent of Texas oil falls into Tier 1.

the exemption of state and local government income from oil production on their lands, an exemption opposed by the Carter Administration. Also exempt are some nonprofit charitable and educational institutions, Indian tribes and certain new oil produced in the northern reaches of Alaska.

How Much Money?

According to congressional projections, this complex rate structure will produce $227.7 billion over the next decade (see Table 3), far higher than the $140 billion estimated by President Carter when he unveiled the tax idea a year ago. This difference results largely from new assumptions about world oil prices, which have increased much more rapidly in recent months than the Carter Administration had anticipated.

Even the $227.7 billion figure is a bit misleading. Under the current act, the tax is scheduled to be phased out over a 33-month period beginning in 1988 or when cumulative revenue reaches $227.7 billion, whichever comes last. Those additional 33 months could add as much as $40 billion to the eventual tax take, according to some estimates.

Still, there is no complete agreement among the experts on how much the tax will finally produce. Since the congressional estimates were announced, two highly divergent ideas about their accuracy have emerged. One argues that revenue from the tax may be far **higher** than Congress now believes, while the other foresees a potential revenue **shortfall** of as much as $100 billion over the next decade.

TABLE 3
ESTIMATED WINDFALL PROFITS TAX REVENUE, 1980-90
(Billions of Dollars)

Year	Receipts	Year	Receipts
1980	$ 6.3	1986	$ 22.9
1981	14.7	1987	23.8
1982	18.9	1988	24.6
1983	20.1	1989	25.8
1984	21.3	1990	27.0
1985	22.3	Total	$227.7

SOURCE: U.S. Congress, Joint Economic Committee.

The argument that revenue will be higher than expected is based primarily on the uncertain nature of world oil prices. The congressional revenue estimate assumes a current world price of $30 a barrel, rising at two percent annually in real (inflation adjusted) terms. The base price is about right, but if recent months are an indication, the growth rate may be conservative. With the prospect of a generally tight oil market over the coming decade, both world and domestic oil prices could prove substantially higher, pulling windfall tax receipts along with them. For example, the congressional Joint Economic Committee has estimated that a three percent annual growth rate would produce an additional $29 billion over the ten-year period.

But what if the congressional estimates, instead of being low, are in fact too high? That argument is made by Philip Verleger, a former Treasury Department energy economist, in a recent issue of **National Journal** magazine.[1] Verleger believes that a number of unforeseen "loopholes" in the tax bill create at least a possibility that actual windfall tax receipts may fall $100 billion short of current estimates. Among these "loopholes" are the possibility that oil-producing states will raise their severance taxes, which are deductible under the act, and that companies will shift from primary to tertiary recovery methods to take advantage of the lower Tier 3 tax rate and the higher Tier 3 base price.

[1] *Robert J. Samuelson, "The $100 Billion Mistake -- is the 'Windfall' Revenue Estimate Too High?" **National Journal** (April 26, 1980), pp. 677-80.*

Dividing the Windfall

Only time will tell who is right in this new debate. It is conceivable, of course, that the original estimates may turn out right, simply because the over- and underestimates cancel each other out. In any case, it is clear the federal government will receive a substantial revenue boost as a result of the windfall tax. There is also little question that this vast new revenue will have a major impact on federal budget policy in the 1980s.

As noted earlier, the President had originally proposed segregating most of the windfall tax proceeds in a special energy trust fund to finance a wide range

Continued on page 17

TABLE 4
NEW RESIDENTIAL AND BUSINESS ENERGY TAX CREDITS
Calendar Years 1980-90

Credit	Provisions	Federal Revenue Loss (Millions)
Residential		
• Solar, wind and geothermal energy equipment	Geothermal added. Maximum credit raised from $2200 to $4000.	$ 533
• Home insulation, storm windows and thermostats	New provisions for joint owners. Maximum credit remains $300.	67
Total Available for Residential Credits		$ 600
Business[1]		
• Small-scale hydroelectric facilities	An 11% credit for up to 125 megawatts of capacity.	$1,797
• Solar and wind equipment	Credit raised from 10% to 15%.	1,058
• Biomass equipment to convert waste to fuel	Liberalized provisions and credit extended to 1985. Credit remains 10%.	648
• Petroleum coke and pitch	Restores investment credit and accelerated depreciation for boilers using petroleum coke and pitch for fuel.	532
• Cogeneration equipment	A new 10% credit available through 1982.	356
• Coal gasification equipment	A new 10% credit.	277
• Equipment for producing feedstocks and increasing energy efficiency	Extends existing 10% credit and adds new items qualified for credit.	122
• Intercity buses	A new 10% credit.	36
• Geothermal and ocean thermal equipment	Raises credit from 10% to 15% and extends to ocean thermal equipment.	34
• Transition rules for credits	Set aside to continue successful credits to 1990.	1,152
Total Available for Business Credits		$6,012[1]

SOURCE: U.S. Congress, "Conference Report on H.R. 3919, The Crude Oil Windfall Profit Tax Act of 1980", 96th Congress, 2nd Session (March 1980).

[1] Does not include approximately $2.3 billion in business tax incentives, including an extension of the exemption of gasohol from the federal gasoline tax and the allowance of additional energy-related property, such as hydroelectric power facilities, to qualify for financing with tax-exempt industrial bonds.

WINDFALL *Continued*

of energy programs. The most important among these were an $88 billion synthetic fuel development program; $24 billion in payments to the poor to offset rising energy costs; and $16.5 billion for various transportation programs.

The bill signed by the President was far less specific. Lawmakers earmarked just 15 percent of the tax, about $34 billion over the next decade, for synthetic fuels and mass transit programs, while 60 percent or $136.6 billion was allocated for future cuts in personal and corporate income taxes. The remaining 25 percent, about $57 billion, is aimed at helping the poor with energy costs.

However, even these broad allocations are no more than guidelines. All of the new windfall tax revenue will flow into the Treasury's general fund, and more legislation will be needed before most of it can be spent. In addition, a provision of the final bill allows the Congress to use the windfall receipts to reduce the federal deficit without regard to the allocation guidelines.

This is not to say, however, that the bill is totally silent on uses of the tax proceeds. Although the final uses of most of the tax money will be decided by future Congresses, several current programs are authorized. For example, $3.0 billion has been set aside to help low-income families with their energy bills in 1981. The aid will be funneled to the poor through block grant programs administered by the states and distributed either as cash or as state tax credits. Presumably, additional funds eventually will be earmarked to continue the program beyond 1981.

Also included in the final bill are a number of residential and business energy incentives and tax credits designed to encourage conservation and promote investment in alternative energy sources, such as solar and wind energy. Homeowners will be eligible for up to $600 million in tax credits, while the bill provides $8.3 billion in business tax incentives, $6 billion of which are energy tax credits. The new tax credit provisions are summarized in Table 4.

Several nonenergy related tax provisions were also written into the bill. Most important among these is a federal income tax exemption of $200 in combined interest and dividends for individuals and $400 for married couples. This $4.3 billion exemption becomes effective in January 1981 and will run through 1982.

End of the Beginning

Although the final windfall profits tax bill differs markedly from the Administration's original proposal, President Carter hailed its passage as a major energy policy victory. This does not mean, however, that the fight over the tax has ended. Several factors guarantee that it will continue to be an important part of the national energy policy debate for years to come.

Opponents of the tax are already discussing the possibility of revising the tax law to lighten its load on oil companies. By way of justification, industry spokesmen argue that the tax will reduce potential domestic production by well over a million barrels a day by the late 1980s.

Ironically, there is also a possibility that supporters of the tax will eventually be forced to fight for an even tougher law in an effort to close unexpected "loopholes" in the tax, a situation some analysts believe is virtually guaranteed by the bill's complexity. This debate could become particularly heated if, as economist Philip Verleger argues, the tax revenue has been grossly overestimated.

Also left unresolved for now is the question of how most of the tax revenue will be spent. Since Congress set only vague guidelines for the disposition of the bulk of the tax, hammering out detailed uses may become an annual battle on Capitol Hill.

Probably most troubling to critics of the tax is the prospect that the expected flood of new revenue will lead to higher and higher levels of federal spending over the next decade. Even if there is no revenue shortfall, the tax eventually will be phased out and the flow of money will trickle to a stop. If the government does not exercise foresight in spending the revenue windfall, it may find itself left with a number of costly programs and would have to find alternative ways to pay for their continuation. "If we get carried away," one Administration official says, "we could be in deep trouble."

-- Billy Hamilton

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

SALES TAX

.028 Computers-Hardware, Software, Services and Sales. This rule has been amended to conform to a recent court decision. Under the revised rule, the sale, lease, or rental of computer programs or programming services are not subject to the sales or use tax unless such items are a mandatory part of the sale, lease, or rental of hardware. This rule, adopted on an emergency basis in February, is effective April 11, 1980. The potential revenue loss for the state and cities from implementation of this rule is estimated below for fiscal years 1980-1984.

SALES TAX RULE .028
REVENUE LOSS
(In Millions)

Fiscal Year	Total	State	Local
1980	$ 5.2	$ 4.3	$ 0.9
1981	6.8	5.6	1.2
1982	8.7	7.2	1.5
1983	11.4	9.4	2.0
1984	14.8	12.2	2.6

SOURCE: Comptroller of Public Accounts, Revenue Estimating.

AD VALOREM TAX

.004 Solar Energy Exemption. Recent legislation exempts solar and wind-powered energy devices from ad valorem taxes and requires the Comptroller to develop guidelines to assist tax assessors in assessing this type of property. This rule incorporates these guidelines, providing definitions and examples of solar and wind energy devices. The guidelines are designed to assist taxpayers and assessors in determining what effect adding such devices will have on the value of property for ad valorem tax purposes. In general, a tax assessor is prohibited from increasing the value of property because solar or wind energy devices have been placed on it. The exemption does not apply to devices which can be used regardless of the energy source being utilized, such as double plated windows. Emergency rule effective February 27, 1980.

STANDARD FINANCIAL MANAGEMENT SYSTEM FOR TEXAS COUNTIES

The revision to the "Red Book" has been mailed. If you have a copy of this accounting manual for Texas counties and have not received the new Section 100 -- Financial Management Standards -- call the Office of Planning and Research at 512/475-2198, or toll-free, 1-800-252-5555, extension 204.

REVENUE BY PROGRAM CATEGORY ABSTRACT

Revenue from the different areas of state activity is shown in the accompanying table. Personal property, which includes the sales, inheritance and property taxes, is the largest revenue category -- more than $1.5 billion or 22.8 percent of the year-to-date total. April receipts from personal property taxes and related licenses and fees were $160.9 million.

Natural resources brought in $201.8 million during April for an eight-month total of $1.3 billion. This represents a 48.3 percent increase above a year ago. This group of revenue includes the oil, gas and sulphur production taxes, as well as oil and gas royalties, leases and land sales.

In the area of transportation -- 16.7 percent of all revenue so far -- April collections from various licenses and fees, motor vehicle sales and rental taxes, and motor fuel taxes totaled $166.1 million. This category has accounted for $1.1 billion in state revenue since September.

Almost 15 percent of the year-to-date revenue is from the miscellaneous sources in the "Other" category. With April revenue of $127.8 million, this category now accounts for $1 billion during fiscal 1980. Most of these receipts are from federal revenue sharing and interest income, as well as other sources.

Welfare and MHMR receipts -- principally federal grants --totaled $94.7 million in April. This accounted for 10.1 percent of all state receipts for the month. Fiscal 1980 receipts for this category are $669.7 million, 9.8 percent of total revenue.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenue		Year-to-Date September 1979—April 1980			
	April 1980	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Transportation[2]	$166.1	17.8%	$1,134.1	16.7%	$+ 360.6	+ 46.6%
Personal Property	160.9	17.2	1,551.7	22.8	+ 254.5	+ 19.6
Business Regulation	11.1	1.2	61.7	0.9	+ 13.0	+ 26.6
Insurance	78.9	8.4	104.4	1.5	+ 63.8	+157.2
Utilities	5.4	0.6	91.5	1.3	+ 15.4	+ 20.2
Alcoholic Beverages	17.9	1.9	138.7	2.0	+ 13.0	+ 10.4
Tobacco	27.0	2.9	209.1	3.1	+ 8.4	+ 4.2
Natural Resources	201.8	21.6	1,320.3	19.4	+ 429.9	+ 48.3
Agriculture	0.4	0	2.6	0	+ 0.2	+ 6.5
Parks and Wildlife	3.5	0.4	24.4	0.4	+ 0.8	+ 3.6
Education	26.9	2.9	385.5	5.7	+ 1.9	+ 0.5
Health	12.2	1.3	94.9	1.4	+ 6.1	+ 6.9
Welfare and MHMR	94.7	10.1	669.7	9.8	+ 58.9	+ 9.7
Other[2]	127.8	13.7	1,011.5	14.9	- 20.3	- 2.0
TOTAL REVENUE[3]	$934.6	100.0%	$6,800.2	100.0%	$+1,206.2	+21.6%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Federal Receipts for transportation programs were previously recorded erroneously as "Federal Receipts-Other." These entries were transferred to the transportation category in February, explaining the 46.6 percent increase in the "Transportation" category and the 2 percent decrease in the "Other" category.
[3]Totals may not add due to rounding.

STATE REVENUE ABSTRACT

Revenue from all state funds was $934.6 million in April, bringing the fiscal year total since September to $6.8 billion. This represents a 21.6 percent increase above receipts during the same period last year.

Tax collections registered a 23.5 percent increase and contributed nearly $3.7 billion of the total year-to-date revenue. April tax revenue was $503 million. The sales tax growth during fiscal 1980 is 21 percent above a year ago. Receipts of $146.6 million during the month brought the fiscal year total to nearly $1.5 billion -- 39.8 percent of all tax dollars.

The natural gas production tax has shown significant gains above last year with fiscal 1980 collections of $474.7 million representing a 34.6 percent boost. The oil production tax is running 69.5 percent above the same period a year ago. April collections of $69.7 million have boosted the fiscal 1980 oil production tax total to $478 million.

Insurance companies taxes are showing sizable increases above a year ago. The 158.6 percent hike above fiscal 1979 collections is principally accounted for by a change in the method used to process the tax by the State Board of Insurance.

Federal funds, which account for 25 percent of revenue to date, have experienced a 12.7 percent increase above last year. April federal receipts were $223.4 million. Year-to-date federal receipts are almost $1.7 billion.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

Tax Collections by Major Tax	Monthly Revenue		Year-to-Date September 1979—April 1980			
	April 1980	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Sales Tax	$146.6	29.1%	$1,469.9	39.8%	$+ 255.0	+ 21.0%
Natural Gas Production Tax	61.3	12.2	474.7	12.9	+ 122.0	+ 34.6
Motor Fuels Taxes	37.3	7.4	320.9	8.7	+ 7.4	+ 2.4
Oil Production Taxes	69.7	13.9	478.0	12.9	+ 196.0	+ 69.5
Motor Vehicle Sales Tax	35.4	7.0	287.9	7.8	+ 15.0	+ 5.5
Cigarette and Tobacco Taxes	27.0	5.4	208.7	5.7	+ 8.4	+ 4.2
Corporation Franchise Tax	4.8	1.0	21.8	0.6	+ 6.1	+ 38.8
Alcoholic Beverage Taxes	17.0	3.4	131.5	3.6	+ 12.7	+ 10.7
Insurance Companies Taxes	78.3	15.6	97.7	2.6	+ 59.9	+158.6
Utility Taxes[2]	4.6	0.9	61.9	1.7	+ 11.3	+ 22.4
Inheritance Tax	4.4	0.9	51.5	1.4	+ 5.2	+ 11.1
Ad Valorem (Property) Tax	9.7	1.9	27.3	0.7	- 7.0	- 20.3
Telephone Tax	0.8	0.2	29.6	0.8	+ 4.1	+ 15.5
Other Taxes[3]	6.1	1.2	30.4	0.8	+ 6.6	+ 27.6
TOTAL TAX COLLECTIONS[4]	$503.0	100.0%	$3,691.8	100.0%	$+ 702.7	+ 23.5%
Revenue by Source						
Tax Collections (detail above)	$503.0	53.8%	$3,691.8	54.3%	$+ 702.7	+ 23.5%
Federal Funds	223.4	23.9	1,697.2	25.0	+ 191.7	+ 12.7
Interest Income	72.1	7.7	652.6	9.6	+ 156.6	+ 31.6
Licenses and Fees	54.8	5.9	307.6	4.5	+ 52.0	+ 20.3
Land Income: Rents, Royalties, Sales	69.7	7.5	360.5	5.3	+ 98.4	+ 37.6
Other Revenue Sources[5]	11.7	1.3	90.5	1.3	+ 4.7	+ 5.5
TOTAL REVENUE[4]	$934.6	100.0%	$6,800.2	100.0%	$+1,206.2	+ 21.6%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax.
[3]Includes the Hotel-Motel, Cement, and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4]Totals may not add due to rounding.
[5]Patient Maintenance and Support Fees, Grants, Donations, and Miscellaneous Revenue.

STATE EXPENDITURES BY OBJECT ABSTRACT

Foundation School Program grants were the largest object of state spending in April with disbursements of $261.7 million accounting for 30.8 percent of total expenditures. Year-to-date Foundation Program grants total nearly $1.9 billion, a 22.4 percent hike above fiscal 1979.

Salaries and wages of state employees reached $177.9 million for the month, raising the fiscal 1980 total to $1.4 billion. This represents a 10.1 percent increase above a year ago.

Public assistance and medical care for indigent Texans amounted to $112.9 million during the month. Fiscal 1980 welfare disbursements of $829.4 million exhibit a $56 million or 7.2 percent increase above the first eight months of fiscal 1979.

Other personal services -- retirement and social security costs, unemployment compensation benefits and consultants' fees -- totaled $78.8 million in April. The fiscal 1980 total for this category is $586.6 million, a 28.6 percent boost over fiscal 1979. Other personal services account for 8.6 percent of all year-to-date expenditures.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1979—April 1980			
	April 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
Salaries and Wages	$177.9	21.0%	$1,426.3	20.9%	$+131.0	+10.1%
Other Personal Services	78.8	9.3	586.6	8.6	+130.5	+28.6
Consumable Supplies and Materials	21.5	2.5	167.1	2.4	+ 24.4	+17.1
Current and Recurring Operating Expenses	32.4	3.8	264.6	3.9	+ 18.2	+ 7.4
Assistance and Medical Care for the Needy	112.9	13.3	829.4	12.2	+ 56.0	+ 7.2
Foundation School Program Grants	261.7	30.8	1,878.5	27.5	+343.9	+22.4
Other Public Education Grants	25.3	3.0	307.9	4.5	- 9.4	- 3.0
Grants to Higher Education	2.1	0.2	289.5	4.2	+ 2.8	+ 1.0
Other Grants	28.9	3.4	223.6	3.3	+ 19.9	+ 9.8
Payment of Principal on Indebtedness	0	0	4.0	0.1	+ 0.2	+ 5.1
Payment of Interest and Other Claims	0	0	30.8	0.5	+ 1.8	+ 6.1
Capital Outlay for Highways	83.6	9.8	570.8	8.4	+216.6	+61.2
Capital Outlay for Land and Buildings	11.6	1.4	93.8	1.4	+ 9.5	+11.3
Other Capital Outlay	12.6	1.5	148.8	2.2	+ 36.2	+32.2
TOTAL EXPENDITURES[2]	$849.3	100.0%	$6,821.8	100.0%	$+981.6	+16.8%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT

State expenditures were $849.3 million in April, boosting year-to-date disbursements to $6.8 billion for all state funds. This represents a $981.6 million or 16.8 percent increase above the same period last year.

Education continues as the major function of state government, with 45.5 percent of each state dollar spent to support state and local education. Educational outlays in April totaled $386.5

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures		Year-to-Date September 1979—April 1980			
	April 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 13.6	1.6%	$ 121.8	1.8%	$+ 25.1	+26.1%
Business Regulatory Commissions	5.0	0.6	39.3	0.6	+ 4.7	+13.7
Legislative	1.8	0.2	15.3	0.2	- 1.4	- 8.2
Judicial	2.1	0.2	17.0	0.2	+ 2.7	+19.2
TOTAL	$ 22.6	2.6	$ 193.4	2.8	$+ 31.1	+19.2
SERVICES						
Welfare	$141.6	16.7%	$1,065.3	15.6%	$+ 69.3	+ 7.0%
Mental Health, State Homes and Corrections	43.7	5.1	336.7	4.9	+ 37.1	+12.4
Health and Sanitation	13.2	1.6	101.6	1.5	+ 7.9	+ 8.4
Law Enforcement	8.3	1.0	67.1	1.0	+ 7.8	+13.1
TOTAL	$206.8	24.4	$1,570.7	23.0	$+122.1	+ 8.4
IMPROVEMENTS						
Highway Maintenance & Construction	$125.2	14.7%	$ 889.2	13.0%	$+274.5	+44.6%
Natural Resources	8.7	1.0	61.9	0.9	+ 4.8	+ 8.3
Parks and Monuments	4.4	0.5	34.3	0.5	+ 3.0	+ 9.5
TOTAL	$138.3	16.3	$ 985.4	14.4	$+282.3	+40.2
EDUCATION						
Support to State and Local Education	$386.5	45.5%	$3,316.1	48.6%	$+426.5	+14.8%
State Contribution to Teacher Retirement	35.3	4.2	280.7	4.1	+ 68.5	+32.3
TOTAL	$421.8	49.7	$3,596.7	52.7	$+495.0	+16.0
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 28.9	3.4%	$ 223.6	3.3%	$+ 19.9	+ 9.8%
Payment of Public Debt	0	0	34.6	0.5	+ 1.9	+ 5.8
Social Security Contribution	20.7	2.4	146.6	2.2	+ 23.9	+19.4
State Contribution to Employee Retirement	8.4	1.0	63.1	0.9	+ 3.7	+ 6.2
Miscellaneous	1.7	0.2	7.7	0.1	+ 1.7	+28.4
TOTAL	$ 59.8	7.0	$ 475.6	7.0	$+ 51.1	+12.0
TOTAL EXPENDITURES[2]	$849.3	100.0%	$6,821.8	100.0%	$+981.6	+16.8%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT *Continued*

million. This raises the fiscal 1980 total to $3.3 billion, a 14.8 percent increase above the first eight months of fiscal 1979.

Welfare spending is the second largest category of state expenditures. April welfare expenditues of $141.6 million have raised the fiscal 1980 total to over $1 billion. This accounts for 15.6 percent of total state spending and is an increase of $69.3 million or 7 percent above 1979.

Highway maintenance and construction costs totaled $125.2 million in April. Year-to-date highway spending is $889.2 million, 13 percent of all state expenditures. Highway expenditures are running 44.6 percent above a year ago.

Social Security contributions made by the State were $20.7 million in April, bringing the fiscal 1980 total to $146.6 million. This represents a $23.9 million or 19.4 percent boost above a year ago. State teacher retirement contributions were $35.3 million for the month, raising fiscal 1980 expenditures to $280.7 million. This is a $68.5 million or 32.3 percent increase from a year ago.

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue[2]	Special Funds	Total Cash
Beginning Cash Balance April 1, 1980	$ 27.9	$ 2,205.6	$ 2,233.5
Revenue and Expenditures			
Revenue	$ 183.5	$ 751.1	$ 934.6
Expenditures	293.4	555.9	849.3
Net Income (or Outgo)	$(109.9)	$ 195.3	$ 85.3
Net Interfund Transfers and Investment Transactions	$ 133.6	$ (203.3)	$ (69.7)
Total Transactions	$ 23.7	$ (8.0)	$ 15.7
Ending Cash Balance April 30, 1980	$ 51.6	$ 2,197.6	$ 2,249.2

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. Net amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.
[2]The General Revenue cash balance includes $618 million transferred from Special Funds, as authorized by S.B.978.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Intrastate Sales Gals.	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1978								
January	88.7	$ 797.4	627.2	$542.9	719.6	14.5	117.8	$ 733.6
February	80.7	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	90.3	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	86.0	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	88.2	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	85.2	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	85.6	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	85.0	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	83.7	792.6	544.4	608.4	852.5	17.2	158.i	1,046.8
October	87.3	782.7	549.4	583.9	710.6	13.4	137.2	691.9
November	83.6	813.0	543.1	555.6	870.0	17.8	134.7	889.5
December	85.1	795.1	570.7	553.9	773.7	12.8	134.6	759.2
1979								
January	83.2	815.7	597.3	529.6	817.1	14.5	134.5	767.2
February	76.4	812.6	516.0	608.8	754.4	7.2	106.7	898.4
March	84.6	813.7	546.9	667.3	538.0	11.0	132.7	719.4
April	79.9	834.1	492.2	600.4	799.8	14.8	138.2	930.5
May	82.9	853.0	538.0	656.4	787.5	15.4	137.2	1,040.9
June	79.8	894.7	517.6	657.3	810.1	15.7	141.0	997.3
July	81.7	959.1	531.4	674.9	792.5	17.4	144.6	887.9
August	80.2	950.3	547.1	694.8	750.6	14.6	113.3	912.3
September	77.4	1,271.7	582.7	763.3	867.0	19.7	159.4	1,018.9
October	69.9	1,085.2	603.0	789.9	746.5	14.1	157.3	915.9
November	68.7	1,213.5	563.5e	738.2	798.8	20.9	128.3	847.4
December	79.5	1,066.8	567.2e	771.4	743.1	15.0	131.3	827.7
1980								
January	77.5	1,452.7	581.1e	790.2	863.6	14.7	135.0	866.1
February		1,359.3	596.0e	810.6	734.9	12.6	131.2	844.4
March		1,415.6	617.4e	864.3	675.0	14.1	131.0	947.8
April		1,521.1	580.0e	812.0	768.2	14.2	148.6	973.3

[1]Estimates based on tax collections in months shown.
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FISCAL NOTES

OFFICE OF THE COMPTROLLER • TEXAS •

Bob Bullock, Comptroller of Public Accounts | Office of Planning and Research

ISSUE 80:9 | July, 1980

RUNAWAY PLANT LEGISLATION: NEW SKIRMISHES IN THE "ECONOMIC WAR BETWEEN THE STATES"

Proposals for national legislation and for new state laws in 11 states would require plants planning to close or move to help workers and communities make up for their losses. The question is, are these proposals a good idea?

One of the major national economic controversies of the 1970s was the clash between the so-called "Sunbelt" and "Frostbelt" states. At the heart of this controversy was the massive shift in people and economic activity from the older industrial states of the Northeast and North Central U.S. to the South and West.

This confrontation first began to attract public attention in the mid-1970s. However, today much of the rancor has subsided and has recently been replaced by other regional concerns, notably the economic benefits likely to accrue to the handful of major oil-producing states as a result of oil price decontrol. (See "Oil Belt Forming?", **Fiscal Notes**, February-March 1980.) This does not mean that the Sunbelt-Frostbelt controversy is dead, however. In less obvious ways, the "economic war between the states" goes on.

A prime example of this struggle can be found in the recent increase in proposed state and federal legislation designed to make it more difficult for businesses to close existing plants and relocate them in other parts

Continued on page 2

INSIDE

STATES OFFER HOME ENERGY TAX BREAKS
In step with a growing national trend, Texas has exempted residential gas and electric bills from state sales taxes, saving Texans $9.39 per capita last year. Some 199 Texas cities have also adopted the exemption from local taxes. ..... **Pg. 5**

ALASKA RETURNS SURPLUS TO ITS RESIDENTS
Alaskans will enjoy their first direct benefits from North Slope oil and gas development in the form of dividends for each year they have lived in the state and a state income tax phase-out..... **Pg. 8**

HARD TIMES FOR THE TAX REVOLT
California's tax cutting Proposition 9 was defeated last month. Did it lose because Proposition 13 had already granted enough relief? Or because record state surpluses had been exhausted? Because sponsor Howard Jarvis himself lost popularity? Or was it because voters have grown more sophisticated about government tax and finance matters? ..... **Pg. 9**

RECENT TAX RULES.... Pg. 11

Monthly Statement of Cash Position..... Pg. 11

STATE REVENUE
By Program Category.... **Pg. 12**
By Source..... **Pg. 13**

STATE EXPENDITURES
By Function..... **Pg. 14**
By Object..... **Pg. 15**

Production & Consumption Indicators..... Pg. 16

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RUNAWAY PLANT LEGISLATION *Continued*

of the U.S. or outside the country. Within the past year, plant closing bills have been introduced in 11 states and in both houses of Congress. Typically, these measures would require a departing firm to give prior notice of its intention to relocate and to compensate employees and communities affected by the closing.

Proponents of such legislation argue that plant closings have profound psychological and financial consequences for the workers and communities left behind. They believe companies should not be allowed simply to leave a community without taking responsibility for the damage created. Obviously, they say, such legislation is most needed in the areas which have been hardest hit by loss of people and industry, but they argue that the runaway plant phenomenon affects all areas of the country. Significantly, though, most of the current legislative proposals have come from Frostbelt states.

Legislative Proposals

At present, two states--Maine and Wisconsin--have runaway plant legislation on the books. In both cases, though, the statutes are relatively limited. The Maine law, enacted in 1971, provides for one week's severance pay for each year an employee has worked for a firm. In Wisconsin, a five-year-old law requires only that a company closing a plant give 60 days notice.

However, interest in this type of legislation is on the upswing. States considering plant closing legislation in the past year include Conneticut, New York, Illinois, Pennsylvania, Indiana, Michigan, Ohio, Massachusetts, New Jersey, Oregon and Rhode Island.

Typical of these efforts is the Ohio proposal. First introduced in 1977, it has served as a model for other states and is given the best chance of passage in the near future. Under this measure, a company with 100 or more workers must give two years notice of its intent to close or relocate a plant. Employees would receive a week's severance pay for each year worked, with even larger settlements possible under individual collective bargaining agreements. The departing company would also be required to pay the community ten percent of a year's salary for each worker who lost his or her job because of the closing.

A separate Ohio bill emphasizes state assistance to plants in danger of closing. The bill would use up to $15 million annually from state liquor monopoly revenue to make and guarantee loans to businesses in areas of economic need.

At the national level, the first bill to deal with the effects of plant relocations was introduced six years ago by Vice-President Mondale, then a U.S. Senator from Minnesota. During the current session of Congress plant closing bills have been introduced in both the House and Senate. Receiving the greatest attention is the "National Employment Priorities Act of 1979," introduced by Rep. William D. Ford and Sen. Donald W. Riegle, both of Michigan.[1]

The Ford-Riegle proposal would affect all businesses with annual gross sales exceeding $250,000 and would apply to all closings or work force reductions affecting at least 100 employees or 15 percent of the total plant work force, whichever is lower.

Under the bill, a company would have to announce its intentions to close a plant six months to two years in advance, depending on its size. It would also be required to file an "economic impact statement" with the U.S. Department of Labor, which could hold hearings on the closing if requested by workers. A National Employment Relocation Administration would be created within the Labor Department to hold the hearings and to work to avert the shutdown.

The prior notice and hearings are designed to give the public time to evaluate the costs of the move, and presumably, to allow workers to find other employment and to give communities a chance to find other uses for the plant. One alternative would be for employees to buy and operate the plant, an option which the Labor Department would be authorized to support through loans, loan guarantees and contract subsidies.

The company would also be required to offer workers the opportunity to relocate to the new

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[1]Another prominent plant closing bill is "The Employee Protection and Community Stabilization Act of 1979," introduced by Sen. Harrison A. Williams of New Jersey. Its provisions are similar to those in the Ford-Riegle bill.

plant and to compensate workers who lose their jobs as a result of the move. The compensation would equal at least 85 percent of their average weekly wages (less unemployment benefits) for up to one year. The firm would also be obligated to maintain employee health and welfare benefits for up to one year.

Like the Ohio bill, the Ford-Riegle proposal would require a company to reimburse the community for lost taxes. In this case, a company would be obligated to pay at least 85 percent of the tax revenue the community would lose the first year. Companies relocating outside the U.S. would be liable for additional payments equal to 300 percent of the lost local revenue.

The Relocation Fallacy

While the Ford-Riegle bill is not likely to pass during the current congressional term, most observers feel similar legislation will surface again, with at least the possibility of a watered down bill passing in the next year or two.[2] And while none of the recent state efforts have become law, proponents are likely to continue to find fertile ground for consideration of such legislation in many economically pressed Frostbelt states.

Given the economic problems facing these areas--made all the more tangible by highly visible plant closings--it is easy to understand the concern which underlies these efforts. However, the fundamental question backers of the legislation have not answered adequately is how successful the measures are likely to be. An examination of the evidence suggests they probably won't be very successful at all. In fact, the ultimate effect may be just the opposite of what proponents intend.

For one thing, it is far from clear that the shift in jobs among regions within the U.S.--or indeed, from the U.S. to other countries--relates very significantly to "runaway plants." Several studies have shown that in the North, the death or contraction of existing firms is the dominant cause of employment change, while in the South, the creation of new firms and the expansion of existing firms is usually of primary importance.[3]

An examination of employment change in various regions by type of industry supports these conclusions. Table 1 shows the change in employment for the four census regions between January 1970 and January 1979. As the table shows, manufacturing employment has been the primary drag on employment growth in the Northeast and North Central regions. However, while both the South and West experienced gains in manufacturing employment, the sector actually lagged far behind several other industrial sectors in those regions. For example, the two regions showed much more rapid growth in the trade, service and construction sectors, all of which are related to population growth and not necessarily industrial relocation. Thus, while slow growth in the northern industrial tier can be traced to the decline in manufacturing employment, the growth of the Sunbelt stems largely from growth in industries other than manufacturing. Even if plant closing legislation succeeded in deterring the shift of plants from North to South and thereby reduced the difference in manufacturing employment growth rates, the effect on relative job growth among regions would be slight.

What is obvious is that plant relocations are not a cause of an area's economic problems so much as they are a symptom of larger problems. The unfortunate truth is that some areas of the U.S., for any number of reasons, no longer provide an economic environment sufficiently healthy to keep existing firms and attract new ones. Runaway plant legislation might provide some short-term relief from one side effect of this problem, but it will do nothing to deal with the problem itself or with its causes.

Industrial location studies have identified many factors which help determine the economic health of communities, states and regions.[4] Among these are the

Continued on page 5

[2] *Andrew Kramer, "Plant Locations (and Relocations) from a Labor Relations Perspective," **Industrial Development**, Vol. 148, No. 6 (November-December 1979), p. 4.*

[3] *See, for example, Carol L. Jusenius and Larry C. Leburdur, **A Myth in the Making: The Southern Economic Challenge and Northern Economic Decline** (Washington, D.C.: U.S. Department of Commerce, Economic Development Administration, 1976); and Peter Allaman and David L. Birch, **Components of Employment Change for States by Industry Group, 1970-72**, Harvard University-Massachusetts Institute of Technology Joint Center for Urban Studies, Working Paper No. 5 (Cambridge, Mass., 1975).*

[4] *See, for example, Illinois Manufacturers Association, **Comparative Business Climate Study** (Chicago, 1975); F.F. Foltman, **Business Climate in New York State: Perceptions of Labor Management Officials** (Ithaca, N.Y.: New York State School of Industrial and Labor Relations, 1976); and others.*

TABLE 1
REGIONAL EMPLOYMENT, BY INDUSTRY, 1970 AND 1980
(Employment in Thousands)

Industry	Northeast			North Central			Northeast and North Central Combined Percent Change
	January 1970	January 1980	Percent Change	January 1970	January 1980	Percent Change	
Total	18,459	20,238	+ 9.6%	19,856	23,966	+20.7%	+15.4%
Mining	52	60	+15.4	106	138	+30.2	+25.3
Construction	700	650	- 7.1	788	940	+19.3	+ 6.9
Manufacturing	5,749	5,132	-10.7	6,433	6,326	- 1.7	- 5.9
Transport and public utilities	1,181	1,124	- 4.8	1,213	1,429	+17.8	+ 6.6
Wholesale and retail trade	3,736	4,265	+14.2	4,222	5,522	+30.8	+23.0
Finance, insurance, real estate	1,131	1,315	+16.3	899	1,228	+36.6	+25.3
Services	3,139	4,313	+37.4	2,883	4,354	+51.0	+43.9
Government	2,771	3,379	+21.9	3,312	4,029	+21.6	+21.8

Industry	South			West			South and West Combined Percent Change
	January 1970	January 1980	Percent Change	January 1970	January 1980	Percent Change	
Total	20,104	28,715	+42.8%	11,607	17,466	+50.5%	+45.6%
Mining	332	560	+68.7	125	202	+61.6	+66.7
Construction	1,169	1,749	+49.6	518	925	+78.6	+58.5
Manufacturing	5,137	6,127	+19.3	2,420	3,127	+29.2	+22.5
Transport and public utilities	1,303	1,660	+27.4	790	1,014	+28.4	+27.8
Wholesale and retail trade	4,263	6,502	+52.5	2,575	4,117	+59.9	+55.3
Finance, insurance, real estate	927	1,451	+56.5	604	1,048	+73.5	+63.2
Services	2,932	4,961	+69.2	2,042	3,685	+80.5	+73.8
Government	4,041	5,705	+41.2	2,533	3,348	+32.2	+37.7

SOURCE: U.S. Bureau of Labor Statistics, **Employment and Earnings**, Vol. 16, No. 9 (March 1970), Table B-7 and Vol. 27, No. 3 (March 1980), Table B-8.

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RUNAWAY PLANT LEGISLATION *Continued*

level of taxes, living costs, labor supply, the availability of markets and intangibles such as the "quality of life" and public attitudes toward economic development. Most studies conducted in recent years have found that the "slow growth" states, including many of those pushing for plant closing statutes, rate poorly compared to other states and particularly to those in the fast growing Sunbelt. In this regard, the introduction--indeed, even the consideration--of legislation designed to restrict business mobility would put a state at an even greater competitive disadvantage. Such legislation also implies that the distribution of population and technology which has existed in the past is still appropriate today, ignoring the dynamic economic growth which has been a trademark of U.S. history.

A national runaway plant law also makes little economic sense. It would add yet another unnecessary and harmful regulatory mechanism to the economy. As Clemson University economist Richard McKenzie has noted: "Restrictions would slow the growth of national income, reduce the rise in real wage rates, contribute to inflation, increase unemployment and reduce the social mobility of workers--while at the same time reducing business profits and the efficiency of the U.S. economy."[5] University of Texas professor Vic Arnold echoes McKenzie's thoughts, noting that such legislation would prevent businesses from easily adapting to new technologies or achieving economies of scale.

This does not imply that the federal government and the states necessarily should assume a laissez-faire approach to economic growth and development. Nor does it imply that governments should ignore economic difficulties within their boundaries. Few would disagree that one goal of public policy should be to protect the economic welfare of individual citizens and communities and to mitigate the effects of economic dislocations, like plant closings, on them. It is even reasonable to expect businesses to accept some responsibility for the direct economic consequences of their decisions. But there must be limits on the extent of government intervention into the workings of the economy. The economic restrictions implied by runaway plant legislation overstep those limits.

--Howard Friedman, Billy Hamilton

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[5] *Richard McKenzie as quoted in James W. Singer, "A Radical Solution to the Problem of 'Runaway Plants'," **National Journal**, Vol. II, No. 24 (June 23, 1979), p. 1041.*

STATES OFFER HOME ENERGY TAX BREAKS

As heating and cooling costs continue to rise, a number of states have enacted laws designed to ease the burden on consumers by exempting sales of gas, electricity and other home fuels from their sales taxes. Eight states enacted such exemptions in 1979, bringing to 15 the number of states which have adopted similar exemptions since 1970. Texas exempted residential gas and electricity sales from its state sales tax in 1978.

Prior to 1970, only 15 states excluded utility sales from their sales tax bases. All of these states exempted both residential and commercial sales, usually as part of their original sales tax law. Of the states adopting exemptions since 1970, only one--North Dakota--has exempted both residential and commercial sales.

Table 1 shows current tax policies on residential and commercial energy sales for all 45 states imposing a sales tax. As the table indicates, 16 states exempt both residential and commercial sales, while 14 states exempt residential sales only. Fifteen states continue to tax both types of sales.

Among the four states surrounding Texas, Louisiana exempts both types of utility sales. Arkansas, Oklahoma and New Mexico impose their sales tax on all such sales.

Continued on page 6

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HOME ENERGY TAX BREAKS *Continued*

The Texas Exemption

The Texas residential utility exemption was adopted by the second called session of the 65th Legislature and took effect on October 1, 1978. Collection data indicate the savings to taxpayers in fiscal 1979 was $125.7 million. This reduction amounts to a $9.39 per capita savings for Texans.

The Texas law also exempted residential gas and electricity sales from the one percent city sales tax unless a city's council voted to keep the levy. Cities had until May 1 of last year to decide on retaining the tax. If no action was taken by that date, the exemption became effective automatically on October 1, 1979.

Of the 926 sales tax cities, 729 voted to retain the tax on residential sales, while 197 allowed the exemption. Fourteen of Texas' 30 largest cities are among the 199 cities allowing the exemption. These include Houston, Dallas, San Antonio, El Paso, Fort Worth and Austin, as shown in Table 2. As indicated in the table, some cities approved the exemption and allowed it to take effect prior to the October 1, 1979, deadline. Under the law, any city may, at any time, reimpose the tax or grant the exemption with a majority vote of its council membership.

TABLE 1
SALES AND USE TAX EXEMPTIONS FOR HOME HEATING FUEL AND ELECTRICITY, 1980

Exempt Residential and Commercial Sales	Exempt Residential Sales Only	Sales Tax Imposed
Alabama	Colorado	Arizona
California	Kansas	Arkansas
Connecticut	Kentucky	Florida
Hawaii	Maryland	Georgia
Idaho	Minnesota	Indiana
Illinois	Mississippi	Iowa
Louisiana	Missouri	Maine
Massachusetts	New York	Michigan
Nevada	Pennsylvania	Nebraska
New Jersey	Rhode Island	New Mexico
North Carolina	South Carolina	Oklahoma
North Dakota	TEXAS	South Dakota
Ohio	Vermont	Tennessee
Washington	Wisconsin	Utah
West Virginia		Wyoming
Virginia		

*SOURCE: Commerce Clearing House, **State Tax Guide** (Chicago: Commerce Clearing House, 1980).*

Comparing Exemptions

Although Texas limits its exemption to sales of gas and electricity only, other states have exempted a wider range of fuels, including coal, oil, propane and steam. For example, Missouri exempts all domestic sales of water, electricity, gas, wood, coal and home heating oil from its sales tax. Wisconsin exempts sales of coal, fuel oil, propane, steam and wood throughout the year, while sales of gas and electricity are exempt only during the months of November through April. In Vermont, sales of electricity, oil, gas and other fuels are exempt when used for either domestic or farming purposes. Kentucky exempts all sales of

Continued on page 8

TABLE 2
LOCAL SALES TAX ON RESIDENTIAL GAS AND ELECTRICITY SALES, THIRTY LARGEST TEXAS CITIES
(As of June 1, 1980)

City	1977 Population[1]	Exempt?	Effective Date
Houston	1,554,960	Yes	Oct. 1, 1979
Dallas	844,528	Yes	Oct. 1, 1978
San Antonio	793,374	Yes	Oct. 1, 1978
El Paso	395,419	Yes	Oct. 1, 1978
Fort Worth	367,993	Yes	Oct. 1, 1978
Austin	323,250	Yes	Oct. 1, 1978
Corpus Christi	215,224	No	
Lubbock	166,127	No	
Amarillo	143,434	No	
Arlington	124,646	No	
Garland	124,298	Yes	Oct. 1, 1978
Beaumont	117,144	No	
Irving	105,070	Yes	April 1, 1979
Waco	104,329	No	
Pasadena	103,856	Yes	Oct. 1, 1978
Wichita Falls	96,884	No	
Abilene	95,392	No	
Odessa	87,624	Yes	April 1, 1979
Laredo	80,570	Yes	Oct. 1, 1978
Brownsville	71,092	No	
San Angelo	67,710	No	
Midland	65,829	No	
Richardson	64,870	Yes	Oct. 1, 1978
Tyler	64,097	No	
Mesquite	62,878	No	
Port Arthur	61,286	No	
Grand Prairie	61,017	Yes	Oct. 1, 1978
Galveston	60,149	No	
Longview	54,173	No	
McAllen	52,587	Yes	Oct. 1, 1978

SOURCE: Comptroller of Public Accounts.

[1]*U.S. Department of Commerce, Bureau of the Census, **Population Estimates and Projections: 1977 Population Estimates for Counties and Incorporated Places in Texas**, (Washington, D.C., 1979).*

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HOME ENERGY TAX BREAKS *Continued*

water and fuel used for heating, water heating, cooking, lighting and other residential uses.

These differences are largely explained by the variations in home energy consumption among states. In Texas, for example, most residential heating and cooling is produced by gas and electricity, whereas other states depend on different energy sources to a much greater degree.

As in Texas, the exemptions in most states became effective immediately following the adoption of the law providing the tax break. Two states, however, will phase in the new exemption to space out its fiscal impact. In 1981, South Carolina will begin reducing its four percent tax by one percent each fiscal year until 1984, when the tax will no longer be imposed on sales of heating materials. New York lowered its rate from four percent to two percent beginning January 1, 1980. Beginning October 1, 1980, all such sales will be exempt from tax.

Finally, almost all states have made the exemption permanent, as is the case in Texas. However, two states--Colorado and Maryland--have placed time limits on their exemptions. In Colorado, the exemption is effective for one year from July 1, 1980, until July 1, 1981. The Maryland legislature adopted the exemption for a two-year period covering July 1, 1979, through June 30, 1981.

--June Bivins

ALASKA RETURNS SURPLUS TO ITS RESIDENTS

A budget surplus has prompted two separate programs to benefit Alaska's residents beginning in October 1980. One program will provide a dividend of $50 for each year of residency since statehood, while the second program entails a phaseout of the state income tax and refunds for 1979.

Since 1977, revenue from the state's nonrenewable natural resources has been deposited in a constitutionally-established Permanent Fund, similar in operation to Texas' Permanent School and University Funds. A portion of the earnings that result from the investment of Alaska's Permanent Fund has been made available for funding the dividend program. Under this program, 50 percent of the Permanent Fund earnings will be deposited into a special Dividend Fund. Alaskans will receive a $50 dividend for each full year they have lived in the state. For example, a full-time resident of the state since 1959 will receive a dividend of $1,050 when the first checks are mailed in October. The statute provides for prorated payments if an individual has resided in the state for less than a year. Regulations have also been issued outlining "allowable absences" for students, military service or medical treatment.

Future dividend payments will be determined annually by the Alaskan Legislature and are expected to increase as the Permanent Fund grows. If the dividend claims exceed the amount of income in the Dividend Fund, the shortage will be made up from general revenue. As of March 1980, the Permanent Fund held $332.1 million and is continuing to grow rapidly. The Department of Revenue estimates that dividend payments will total $128.5 million during fiscal 1981.

The state income tax refund and reduction program is slightly more complicated than the dividend program. The amount of the refund and the current tax liability will depend upon the length of time an individual has lived and paid taxes in Alaska. For instance, a resident who has paid state income taxes for three years will receive a full refund for 1979 and will not be liable to make future tax payments. A two-year taxpayer will get back two-thirds of the tax paid in 1979 and pay only one-third of this year's tax liability. A one-year taxpayer will receive a one-third 1979 refund and pay two-thirds of the 1980 tax. Each individual's income tax liability will be reduced by one-third annually until no tax is owed. A new taxpayer will pay the full tax the first year and follow the same one-third per year reduction schedule until he or she is exempt. The cost of the refund program is

estimated at $146.3 million for fiscal 1981 and will be funded out of general state revenue.

Through the dividend payment program and the tax refund and reduction program, Alaskans will enjoy for the first time direct benefits from the North Slope oil and gas development. State officials hope that this move will induce many residents to make Alaska their permanent home, slowing the high turnover rate of the state's population.

-- Kathleen Rhodes

HARD TIMES FOR THE TAX REVOLT

One of the more striking images of the late 1970s was a June 1978 **Time** magazine cover photograph showing California tax reformer Howard Jarvis angrily shaking his fist into the camera with a 13-starred American flag for backdrop. The legend under the picture proclaimed: "Tax Revolt!"

The topic then, of course, was Proposition 13, the property tax limitation measure which Californians passed overwhelmingly, making a national celebrity of Jarvis, its coauthor,[1] and setting in motion a nationwide movement to cut taxes and reduce spending by all levels of government.

This year Jarvis and his supporters were back with another California tax initiative. Designated Proposition 9, this proposed constitutional amendment would have cut state income tax rates in half, reducing state revenue by $3 to $5 billion annually, according to various estimates. The measure also would have amended the California Constitution to index fully the state income tax to keep inflation from pushing taxpayers into higher tax brackets and to prohibit the state's property tax on business inventories. These latter two provisions had already been enacted by statute, but including them in the constitution would have prevented statutory repeal.

When Jarvis unveiled the proposal, which came to be known as "Jarvis II" by supporters and "Jaws II" by opponents, it looked like a sure bet for adoption. Polls showed voters favored an income tax reduction and were skeptical of official warnings that the state's much publicized budget surplus could not support another tax cut of Proposition 13's magnitude. However, as Election Day approached, public support for Proposition 9 began to crumble. When California voters went to the polls on June 4, they rejected the proposal by a five to three margin, leaving political analysts to ponder the larger meaning of it all. Did the vote signal a death knell for the two-year-old tax revolt? Or was it, as some suggested, largely a repudiation of Jarvis as the movement's most prominent--and most controversial--leader? Or was it simply the best end to a bad idea?

It may be some time before analysts sort out the "definitive" answers to these questions. In the meantime, observers have identified several probable factors underlying the initiative's defeat.

First, much of the public anger and frustration which gave Proposition 13 its momentum in 1978 is absent this year. Two years ago, some Californians were literally losing their homes because of skyrocketing property taxes, which had increased 110 percent between 1975 and 1978. Public anger was compounded by a massive state budget surplus which had reached $8 billion and was still growing.

Proposition 13 cut property taxes significantly for most homeowners. While some Californians are still unhappy with their state and local taxes, the situation this year is not nearly as volatile as two years ago. A **Los Angeles Times** survey, for example, found that only one in five voters described themselves as "very angry" about the amount of state income tax they pay.

Furthermore, opponents argued, with apparent success, that the proposal would cut taxes in a way that would benefit wealthy Californians more than those in the low- and middle-income brackets. Like its federal counterpart, the California income tax is progressive, meaning it hits the rich harder than the poor. Critics argued that halving the rates would give more than half of the uncollected revenue to the

Continued on page 10

[1] *Often lost in the discussion of Proposition 13 is the fact that Jarvis coauthored the measure with former realtor Paul Gann. Gann went on to sponsor last year's successful Proposition 4, which limits state and local government spending to the increase in per capita income or inflation, whichever is lower. Gann recently won the Republican nomination for U.S. Senator and will face the incumbent, Alan Cranston, in November.*

HARD TIMES FOR THE TAX REVOLT *Continued*

wealthiest seven percent of California taxpayers. The poorest Californians, including retired homeowners who gave virtually unanimous support to Proposition 13, stood to receive the smallest benefits from the tax cut.

Many of those same low- and middle-income voters would also have been hit hardest if public services had to be cut because of the initiative. A large percentage of the 1978 state surplus has been used to blunt the effects of Proposition 13, making reduced services a virtual certainty, according to state officials. Educational leaders were particularly concerned, since the state's school system absorbed the heaviest cuts as a result of Proposition 13.

For their part, Jarvis and his supporters charged opponents of the initiative with exaggerating its likely impact on state and local finances. They cited a study by the University of California at Los Angeles Graduate School of Management which estimated only a three percent gap between planned outlays and combined state and local revenue during the first year Proposition 9 would have been in effect.

The explanation for this relatively modest gap was the anticipated "supply-side" effect of the tax cut. The researchers believed--and much of the philosophical basis of Proposition 9 rested on the idea--that the tax reduction would free up income for private spending and investment, thereby boosting state economic growth. This growth in turn was expected to push tax collections higher than official estimates indicated. Indeed, University of Southern California economist Arthur Laffer, a leading proponent of the supply-side concept, predicted that two-thirds of the expected state revenue loss could be recouped within two years as a result of this increased business activity. To support their argument, initiative proponents pointed to evidence that Proposition 13 did, in fact, work in just this way, lessening its effects on government finances. Nonetheless, voters apparently remained unpersuaded, or, possibly, became increasingly confused by the intricacies of supply-side economics.

In the wake of Proposition 9's defeat, some supporters of the measure were laying the blame on Jarvis' controversial public image. Once one of the state's most popular public figures, Jarvis' popularity has slipped recently. An Election Day survey by the **Los Angeles Times** showed that 63 percent of the voters had an "unfavorable" opinion of the tax protester. "It ended up that Howard Jarvis was the issue," said economist Laffer, who supported the initiative. "He used to be entertaining, but he's not so entertaining anymore. It's too bad because Proposition 9 was a good issue."

Another Proposition 9 backer, state Senate Minority Leader William Campbell, believes it is time for the 77-year-old Jarvis to step aside as leader of the tax revolt movement. "There's no doubt that the opposition effectively made Howard an issue in the campaign," Campbell said after the defeat. "People look at him and not at the issues. I think maybe he should be de-emphasized."

Jarvis, however, has no intention of being de-emphasized. Speaking to a group of supporters on the day after the election, he charged Proposition 9 was defeated by public fear of service cuts that would be made by "vengeful" politicians and government bureaucrats. He pledged to unveil a new initiative campaign in the next few weeks. It is expected to focus on cutting back the number of state employees and reducing their pensions. "We lost the battle of Pearl Harbor and came back to win the war," Jarvis said. "We lost 13 three times, and we eventually won it. We will win this one, too." Given Jarvis' success with Proposition 13, no one is willing to bet the Proposition 9 defeat marks the end of his leadership of the national tax revolt.

As for the revolt itself, Proposition 9 unquestionably represents a setback, but probably not a fatal blow. The movement is well established in a number of states and no longer depends on Jarvis and his organization for its thrust, if indeed it ever did. Some observers feel that the initiative's defeat may cause the movement to shift directions somewhat, perhaps evolving toward a more general emphasis on fiscal reform as opposed to simple tax cutting.

Attorney Mickey Kanter, who headed the "No on 9" coalition, sees this as a healthy trend. To him, Proposition 9's defeat indicates an increasing public sophistication on the issues of taxes and government finance, which ultimately will benefit the movement. "This is not the end of the tax revolt," he says. "People still want tax reform, they want tax relief, but they want it to be fair."

Billy Hamilton

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

MOTOR VEHICLE SALES TAX

.018 Definition of Resident and New Resident. A "resident," for the purposes of Tex. Tax.-Gen. Ann., Art. 6.01(2), is any person living in the state and any firm, corporation or association physically located in the state. This includes persons living temporarily in the state. A person, firm, corporation or association may be a resident of more than one state at a time. A "new resident," for the purposes of Tex. Tax.-Gen. Ann., Art. 6.01(3), is any person, firm, corporation or association which moves to Texas with the intent to live or locate in the state. Once residence is established, a person, firm, corporation or association may not subsequently become a "new resident" under this article without showing abandonment of the formerly established Texas residence. Effective May 27, 1980. No significant fiscal implications are expected.

AD VALOREM TAX

.004 Solar Energy Exemption. This rule incorporates guidelines to assist tax assessors in assessing property having solar and wind energy devices. This rule, adopted on an emergency basis in February (**Fiscal Notes,** June 1980), is effective May 27, 1980. No significant fiscal implicatons or additional cost to the state or local government units is expected.

HOTEL OCCUPANCY TAX

.001 Definitions. A charitable or eleemosynary organization is one devoting substantially all of its activity to the alleviation of poverty, disease, pain and suffering with funds derived in part from sources other than fees or charges for its services. Effective May 27, 1980. No fiscal implications are expected.

.003 Exemption Certificate. The rule has been amended to delete a subsection referring to the Comptroller's Sales Tax Division. This tax is now administered by the Miscellaneous Tax Division. Effective May 26, 1980. No fiscal implications are expected.

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue[2]	Special Funds	Total Cash
Beginning Cash Balance May 1, 1980	$ 51.6	$ 2,197.6	$ 2,249.2
Revenue and Expenditures			
Revenue	$ 416.2	$ 808.1	$ 1,224.4
Expenditures	237.9	700.7	938.6
Net Income (or Outgo)	$ 178.3	$ 107.4	$ 285.8
Net Interfund Transfers and Investment Transactions	$(179.3)	$ (1.3)	$ (180.6)
Total Transactions	$ (1.0)	$ 106.1	$ 105.1
Ending Cash Balance May 31, 1980	$ 50.6	$ 2,303.7	$ 2,354.3

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. Net amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.
[2]The General Revenue Fund cash balance includes $406.3 million transferred from Special Funds, as authorized by S.B.978.

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REVENUE BY PROGRAM CATEGORY ABSTRACT

The Personal Property category includes the sales, inheritance and property taxes. May receipts for this category totaled $385.2 million, accounting for 31.5 percent of all state receipts. Year-to-date revenue from this category is $1.9 billion, representing a $320.6 million or 19.8 percent increase above a year ago.

Receipts from the Natural Resources category, which includes oil and natural gas production taxes and royalty income, totaled $191.1 million in May. Income from the Natural Resources category totaled $1.5 billion for the year, accounting for a 52.7 percent increase above the same period last year.

Transportation revenue reached $174.4 million in May, raising the fiscal 1980 total to $1.3 billion. This represents a $441.4 million or 50.9 percent boost above a year ago. Federal funds for highway programs have been reclassified from the "Other" category, accounting for most of the increase above fiscal 1979 receipt levels.

Welfare and MHMR receipts, principally federal grants, totaled $114.1 million during the month. Year-to-date receipts are $783.8 million and account for 9.8 percent of all state revenue, an increase of $90.7 million or 13.1 percent from a year ago.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenue		Year-to-Date September 1979—May 1980			
	May 1980	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Transportation[2]	$ 174.4	14.2%	$1,308.5	16.3%	$+ 441.4	+ 50.9%
Personal Property	385.2	31.5	1,936.8	24.1	+ 320.6	+ 19.8
Business Regulation	18.6	1.5	80.3	1.0	+ 17.8	+ 28.5
Insurance	50.9	4.2	155.2	1.9	- 1.7	- 1.1
Utilities	38.2	3.1	129.7	1.6	+ 15.9	+ 13.9
Alcoholic Beverages	18.1	1.5	156.8	2.0	+ 14.5	+ 10.2
Tobacco	28.4	2.3	237.5	3.0	+ 10.5	+ 4.6
Natural Resources	191.1	15.6	1,511.4	18.8	+ 521.5	+ 52.7
Agriculture	0.2	0	2.8	0	+ 0.2	+ 5.8
Parks and Wildlife	3.2	0.3	27.6	0.3	+ 0.8	+ 3.1
Education	65.7	5.4	451.2	5.6	+ 22.8	+ 5.3
Health	13.5	1.1	108.4	1.4	+ 8.1	+ 8.1
Welfare and MHMR	114.1	9.3	783.8	9.8	+ 90.7	+ 13.1
Other[2]	122.9	10.0	1,134.4	14.1	- 60.6	- 5.1
TOTAL REVENUE[3]	$1,224.4	100.0%	$8,024.5	100.0%	$+1,402.4	+ 21.2%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Previously, Federal Receipts for transportation programs were recorded as "Federal Receipts-Other." These entries were transferred to the transportation category in February, explaining the 50.9 percent increase in the "Transportation" category and the 5.1 percent decrease in the "Other" category.
[3]Totals may not add due to rounding.

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STATE REVENUE ABSTRACT

State revenue totaled $1.2 billion in May, raising the fiscal 1980 total to slightly more than $8 billion. This represents an increase of $1.4 billion or 21.2 percent above a year ago.

Tax collections reached $752.4 million during the month. Tax receipts for the first nine months of the fiscal year totaled $4.4 billion, an $800.9 million or 22 percent boost above last year.

The sales tax growth during fiscal 1980 is 21.1 percent above a year ago. Receipts of $375.2 million during May brought the fiscal year total to $1.8 billion--41.5 percent of all tax dollars.

The natural gas and oil production taxes continue to exhibit sizable gains over last year. With a year-to-date total of $541.1 million, the natural gas production tax has increased $139.9 million or 34.9 percent above the same period last year. The oil production tax, currently totaling $549.8 million, has shown a sizable 81.5 percent or $246.8 million increase.

Federal funds, which account for 23.9 percent of all revenue to date, have experienced a $227.7 million or 13.5 percent increase above last year. May federal receipts were $220.9 million, raising the year-to-date total to $1.9 billion.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

Tax Collections by Major Tax	Monthly Revenue May 1980	Monthly Revenue Percent Of Total	Year-to-Date September 1979—May 1980 Revenue	Year-to-Date Percent Of Total	Change From Last FY	
Sales Tax	$ 375.2	49.9%	$1,845.1	41.5%	$+ 321.5	+ 21.1%
Natural Gas Production Tax	66.4	8.8	541.1	12.2	+ 139.9	+ 34.9
Motor Fuels Taxes	40.0	5.3	360.9	8.1	+ 30.9	+ 9.4
Oil Production Taxes	71.8	9.6	549.8	12.4	+ 246.8	+ 81.5
Motor Vehicle Sales Tax	37.6	5.0	325.6	7.3	+ 11.6	+ 3.7
Cigarette and Tobacco Taxes	28.3	3.8	237.1	5.3	+ 10.5	+ 4.6
Corporation Franchise Tax	12.2	1.6	34.0	0.8	+ 11.5	+ 51.3
Alcoholic Beverage Taxes	17.2	2.3	148.8	3.4	+ 14.1	+ 10.5
Insurance Companies Taxes	50.4	6.7	148.1	3.3	- 4.4	- 2.9
Utility Taxes[2]	23.7	3.1	85.4	1.9	+ 10.4	+ 13.8
Inheritance Tax	5.6	0.7	57.1	1.3	+ 4.0	+ 7.5
Ad Valorem (Property) Tax	4.4	0.6	31.6	0.7	- 6.7	- 17.5
Telephone Tax	14.5	1.9	44.1	1.0	+ 5.5	+ 14.1
Other Taxes[3]	5.0	0.7	35.4	0.8	+ 5.3	+ 17.6
TOTAL TAX COLLECTIONS[4]	$ 752.4	100.0%	$4,444.2	100.0%	$+ 800.9	+ 22.0%
Revenue by Source						
Tax Collections (detail above)	$ 752.4	61.5%	$4,444.2	55.4%	$+ 800.9	+ 22.0%
Federal Funds	220.9	18.0	1,918.1	23.9	+ 227.7	+ 13.5
Interest Income	103.4	8.4	756.0	9.4	+ 151.6	+ 25.1
Licenses and Fees	86.6	7.1	394.2	4.9	+ 95.2	+ 31.8
Land Income: Rents, Royalties, Sales	52.1	4.3	412.5	5.1	+ 121.4	+ 41.7
Other Revenue Sources[5]	9.0	0.7	99.5	1.2	+ 5.7	+ 6.0
TOTAL REVENUE[4]	$1,224.4	100.0%	$8,024.5	100.0%	$+1,402.4	+ 21.2%

[1] Excludes some revenue not cleared through the Comptroller's Office.
[2] Includes the Utility Tax, Gas Utility Administration Tax, and the Public Utilities Gross Receipts Tax.
[3] Includes the Hotel-Motel, Cement, and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4] Totals may not add due to rounding.
[5] Patient Maintenance and Support Fees, Grants, Donations and Miscellaneous Revenue.

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STATE EXPENDITURES ABSTRACT

State expenditures were $938.6 million in May, boosting year-to-date disbursements to almost $7.8 billion for all state funds. This represents a $1.1 billion or 17 percent increase above the same period a year ago.

Education continues to be the major function of state government, with almost half--48.2 percent--of each state dollar spent to support state and local education. Education outlays totaled $424.3

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures May 1980	Monthly Expenditures Percent Of Total	Year-to-Date September 1979—May 1980 Expenditures	Year-to-Date Percent Of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 15.2	1.6%	$ 137.0	1.8%	$+ 28.0	+25.7%
Business Regulatory Commissions	4.5	0.5	43.8	0.6	+ 5.2	+13.4
Legislative	1.9	0.2	17.2	0.2	- 1.8	- 9.3
Judicial	2.1	0.2	19.2	0.2	+ 3.0	+18.4
TOTAL	$ 23.8	2.5	$ 217.2	2.8	$+ 34.4	+18.8
SERVICES						
Welfare	$122.2	13.0%	$1,187.5	15.3%	$+ 63.8	+ 5.7%
Mental Health, State Homes and Corrections	41.7	4.4	378.4	4.9	+ 40.1	+11.8
Health and Sanitation	13.7	1.5	115.3	1.5	+ 8.4	+ 7.9
Law Enforcement	9.3	1.0	76.4	1.0	+ 9.0	+13.3
TOTAL	$186.9	19.9	$1,757.6	22.7	$+ 121.3	+ 7.4
IMPROVEMENTS						
Highway Maintenance & Construction	$156.4	16.7%	$1,045.6	13.5%	$+ 339.2	+48.0%
Natural Resources	7.5	0.8	69.3	0.9	+ 4.2	+ 6.5
Parks and Monuments	5.1	0.5	39.4	0.5	+ 4.4	+12.6
TOTAL	$169.0	18.0	$1,154.3	14.9	$+ 347.8	+43.1
EDUCATION						
Support to State and Local Education	$424.3	45.2%	$3,740.4	48.2%	$+ 490.9	+15.1%
State Contribution to Teacher Retirement	35.3	3.8	315.9	4.1	+ 75.2	+31.2
TOTAL	$459.6	49.0	$4,056.3	52.3	$+ 566.1	+16.2
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 24.6	2.6%	$ 248.2	3.2%	$+ 23.6	+10.5%
Payment of Public Debt	44.5	4.7	79.1	1.0	+ 4.1	+ 5.4
Social Security Contribution	20.9	2.2	167.6	2.2	+ 25.9	+18.2
State Contribution to Employee Retirement	8.8	0.9	71.8	0.9	+ 5.0	+ 7.6
Miscellaneous	0.5	0.1	8.2	0.1	+ 1.3	+19.0
TOTAL	$ 99.3	10.5	$ 574.9	7.4	$+ 59.9	+11.7
TOTAL EXPENDITURES[2]	$938.6	100.0%	$7,760.4	100.0%	$+1,129.4	+17.0%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

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STATE EXPENDITURES ABSTRACT *Continued*

million in May. This raises the fiscal 1980 total to $3.7 billion, a 15.1 percent increase above the first nine months of fiscal 1979.

Welfare spending is the second largest category of state expenditures. May welfare expenditures of $122.2 million have raised the fiscal 1980 total to almost $1.2 billion. This accounts for 15.3 percent of total state spending to date and is an increase of $63.8 million or 5.7 percent above last year.

Highway maintenance and construction costs totaled $156.4 million in May. Year-to-date highway spending is slightly more than $1 billion, 13.5 percent of all state expenditures. Highway expenditures are running 48 percent above a year ago. This compares with an 11 percent annual increase in fiscal 1979.

STATE EXPENDITURES BY OBJECT ABSTRACT

Foundation School Program grants have been the largest object of state spending thus far this fiscal year. Disbursements of $260.3 million in May elevated the year-to-date total to over $2.1 billion, a 21.5 percent increase over the same period last year.

Salaries and wages of state employees reached $180.9 million for the month, raising the fiscal 1980 total to $1.6 billion. This represents an increase of $147.4 million or 10.1 percent above fiscal 1979.

Public assistance and medical care for indigent Texans amounted to $93.3 million during the month. Fiscal 1980 welfare disbursements of $922.7 million exhibited a $49.5 million or 5.7 percent increase above the first nine months of fiscal 1979.

Other personal services--retirement and social security costs are the principal items--totaled $75.3 million in May. The fiscal 1980 total amounts to $661.9 million, accounting for 8.5 percent of all year-to-date expenditures and for an increase of 27.5 percent over last year.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1979—May 1980			
	May 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
Salaries and Wages	$180.9	19.3%	$1,607.2	20.7%	$+ 147.4	+10.1%
Other Personal Services	75.3	8.0	661.9	8.5	+ 142.9	+27.5
Consumable Supplies and Materials	22.9	2.4	190.1	2.5	+ 28.9	+18.0
Current and Recurring Operating Expenses	33.4	3.6	298.0	3.8	+ 18.6	+ 6.7
Assistance and Medical Care for the Needy	93.3	9.9	922.7	11.9	+ 49.5	+ 5.7
Foundation School Program Grants	260.3	27.7	2,138.8	27.6	+ 378.3	+21.5
Other Public Education Grants	48.0	5.1	355.9	4.6	- 3.6	- 1.0
Grants to Higher Education	16.6	1.8	306.1	3.9	+ 17.9	+ 6.2
Other Grants	24.6	2.6	248.2	3.2	+ 23.6	+10.5
Payment of Principal on Indebtedness	28.7	3.1	32.7	0.4	+ 1.9	+ 6.1
Payment of Interest and Other Claims	15.8	1.7	46.6	0.6	+ 2.3	+ 5.1
Capital Outlay for Highways	113.4	12.1	684.2	8.8	+ 274.2	+66.9
Capital Outlay for Land and Buildings	12.4	1.3	106.1	1.4	+ 9.9	+10.2
Other Capital Outlay	13.1	1.4	161.9	2.1	+ 37.5	+30.1
TOTAL EXPENDITURES[2]	$938.6	100.0%	$7,760.4	100.0%	$+1,129.4	+17.0%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

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TEXAS PRODUCTION AND CONSUMPTION INDICATORS[1]
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Intrastate Sales Gals.	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1978								
January	88.7	$ 797.4	627.2	$542.9	719.6	14.5	117.8	$ 733.6
February	80.7	704.8	579.3	582.5	509.9	8.2	114.2	638.3
March	90.3	827.4	608.0	606.9	833.8	9.5	127.4	672.5
April	86.0	807.6	559.7	568.9	750.5	19.6	129.8	842.8
May	88.2	741.5	577.9	607.6	575.4	16.7	138.2	913.5
June	85.2	866.4	569.6	549.0	926.9	16.2	142.6	1,091.9
July	85.6	769.2	589.8	570.0	944.0	17.4	135.8	959.4
August	85.0	822.4	585.5	568.8	934.4	15.2	107.2	912.4
September	83.7	792.6	544.4	608.4	852.5	17.2	158.1	1,046.8
October	87.3	782.7	549.4	583.9	710.6	13.4	137.2	691.9
November	83.6	813.0	543.1	555.6	870.0	17.8	134.7	889.5
December	85.1	795.1	570.7	553.9	773.7	12.8	134.6	759.2
1979								
January	83.2	815.7	597.3	529.6	817.1	14.5	134.5	767.2
February	76.4	812.6	516.0	608.8	754.4	7.2	106.7	898.4
March	84.6	813.7	546.9	667.3	538.0	11.0	132.7	719.4
April	79.9	834.1	492.2	600.4	799.8	14.8	138.2	930.5
May	82.9	853.0	538.0	656.4	787.5	15.4	137.2	1,040.9
June	79.8	894.7	517.6	657.3	810.1	15.7	141.0	997.3
July	81.7	959.1	531.4	674.9	792.5	17.4	144.6	887.9
August	80.2	950.3	547.1	694.8	750.6	14.6	113.3	912.3
September	77.4	1,271.7	582.7	763.3	867.0	19.7	159.4	1,018.9
October	69.9	1,085.2	603.0	789.9	746.5	14.1	157.3	915.9
November	68.7	1,213.5	563.5e	738.2	798.8	20.9	128.3	847.4
December	79.5	1,066.8	567.2e	771.4	743.1	15.0	131.3	827.7
1980								
January	77.5	1,452.7	581.1e	790.2	863.6	14.7	135.0	866.1
February		1,359.3	596.0e	810.6	734.9	12.6	131.2	844.4
March		1,415.6	617.4e	864.3	675.0	14.1	131.0	947.8
April		1,521.1	580.0e	812.0	768.2	14.2	148.6	973.3
May		1,561.0	636.3e	890.9	745.7	18.1	140.7	803.5

[1]Estimates based on tax collections in months shown.
e - estimated

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FI$CAL NOTE$

Bob Bullock, Comptroller of Public Accounts

Office of Planning and Research

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COMPTROLLER RECOVERS $3 MILLION "UNCOLLECTABLE" TAXES

The Payee Records System has enabled the Comptroller's Office to identify and collect numerous debts owed the state which previously were "uncollectable." In the past two years, $3 million has been recovered under the system.

Collections from delinquent accounts identified by the Comptroller's Payee Records System (PRS) reached the $3 million mark in June 1980, two years after its inception.

Using the system, the Comptroller's Office can automatically identify and subsequently "hold" a warrant (check) issued to any person or business that is tax delinquent or otherwise indebted to the state. The warrant is not released until the debt to the state has been cleared. Over 63,000 warrants have been held since the beginning of the program. Figure 1 illustrates the number of warrants held by month. The first four months show a large amount of warrants retained with a subsequent leveling off of holds. In the second month of the program almost 8,000 warrants were held. Only in February 1979 did the number of holds dip below 1,000.

All state agencies are encouraged to participate in the program. Most warrants issued

Continued on page 2

IN THIS ISSUE:
TEXAS ENERGY REPORT
CENTER SECTION

INSIDE

TEXAS PER CAPITA INCOME APPROACHES U.S. AVERAGE

During the 1970s, Texas per capita personal income climbed steadily as a percentage of the U.S. average, reaching 99.3 percent in 1979. Forecasts indicate Texas may exceed U.S. per capita income by almost seven percent by the end of the 1980s. **Pg. 4**

IS TEXAS INCOME BELOW AVERAGE?

Per capita income statistics are often used to compare the economic well-being of states. However, these figur do not consider many factors--such as cost-of-living and tax burden--which have a bearing on the states' economies. An analysis including these additional factors reveals that Texans may be better off than per capita statistics indicate. ..... **Pg. 6**

OIL AND GAS PRODUCTION DATA

Recent figures from the Comptroller's tax files show a substantial increase in oil and natural gas prices over the last year. .. **Pg. 18**

STATE REVENUE
By Program Category ..... **Pg. 12**
By Source ..... **Pg. 13**
STATE EXPENDITURES
By Function ..... **Pg. 14**
By Object ..... **Pg. 15**
PRODUCTION & CONSUMPTION INDICATORS ..... **Pg. 16**
RECENT TAX RULES ..... **Pg. 16**
MONTHLY STATEMENT OF CASH POSITION ..... **Pg. 20**

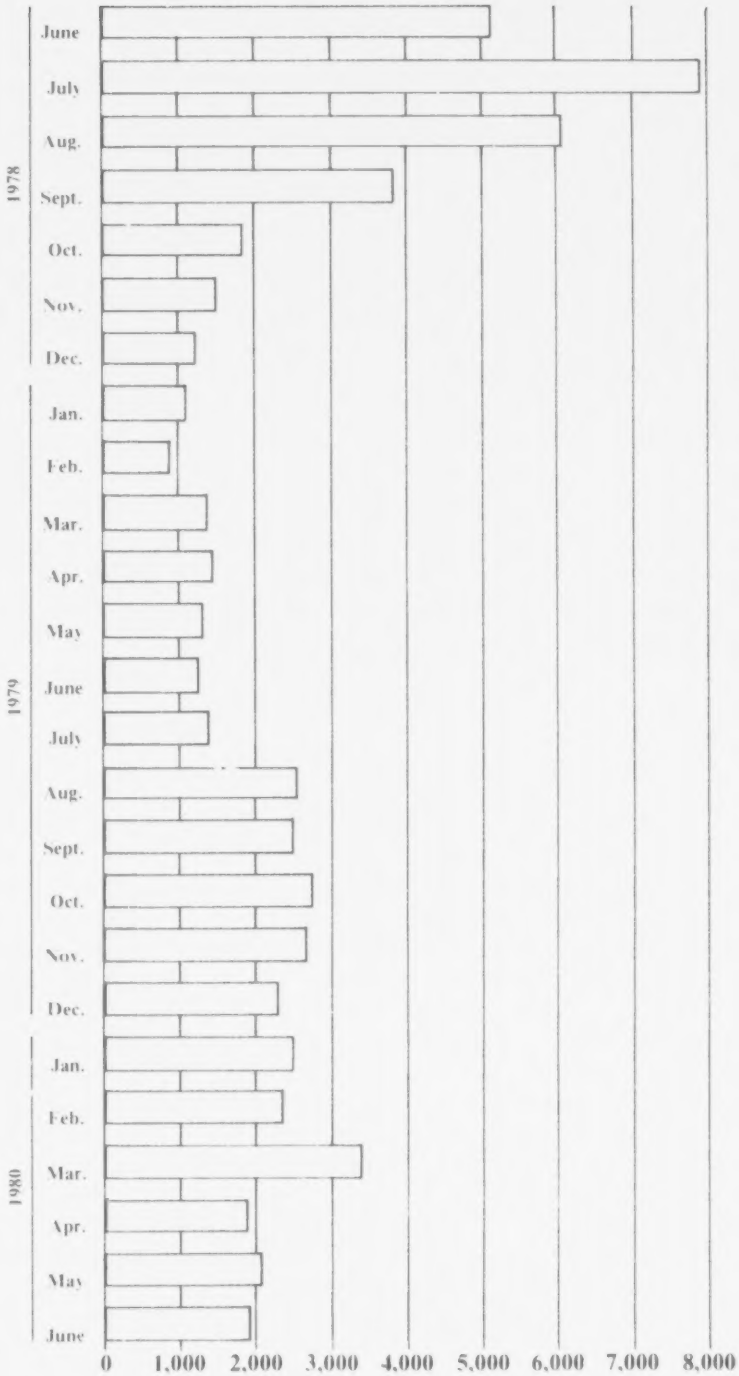
COMPTROLLER RECOVERS $3 MILLION *Continued*

for the state are written by the Comptroller's Office. The agencies can ask that warrants be held for those cases in which a tax or loan is delinquent or a debt has been established judicially. However, only a few agencies have utilized the system. The Comptroller began assisting the Texas College and University System Coordinating Board and 14 individual state colleges and universities in collecting defaulted student loans in 1979. The Coordinating Board administers the Hinson-Hazelwood Student Loan Program, while the individual colleges and universities administer the National Direct Student Loans.

According to Ron Gahagan, Director of Collections for the Coordinating Board, "When you put this kind of hold on somebody, they have little choice. . . . We try to be reasonable, but the money must be paid." Gahagan said the program has assisted their collections.

The delinquent taxes collected by the Comptroller's Office resulting from the PRS have been broken into four tax categories: franchise, state sales, city sales and other taxes. The "other" category consists of all other taxes collected by the Comptroller's Office, such as the diesel fuels tax. As illustrated in Figure 2, the franchise tax represented approximately 66 percent of the delinquent taxes collected. Over $2 million have been received in this category under PRS. State sales taxes comprised approximately 26 percent and totaled

FIGURE 1
Total Number of Warrants Held, Payee Records System
By Month
June 1978 — June 1980



SOURCE: Comptroller of Public Accounts

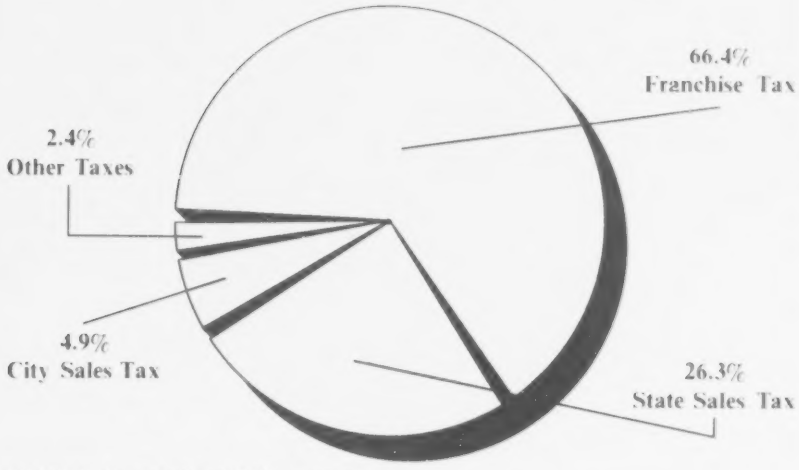
over $800,000. A combination of city sales taxes and other taxes makes up a little over seven percent of the remainder of the taxes collected. Amounts were not broken down by category for the first three months of the program.

The delinquent taxes recovered are shown by month in Figure 3. Collections have averaged a little less than $130,000 per month. June 1980 had the largest amount returned with $334,796, while December 1979 was the smallest month with $15,678.

The law requires that "No warrant shall be issued to any person indebted or owing delinquent taxes to the State, or to his agent or assignee, until such debt or taxes are paid."[1] Prior to the PRS, this law could not be feasibly enforced because of the large volume of warrants issued. Now, all warrants can be checked for delinquency and the state can collect accounts that formerly were "uncollectable".

—Kathleen Rhodes

FIGURE 2
Percentage of Delinquent Taxes Collected by Major Category Payee Records System September 1978 — June 1980[1]

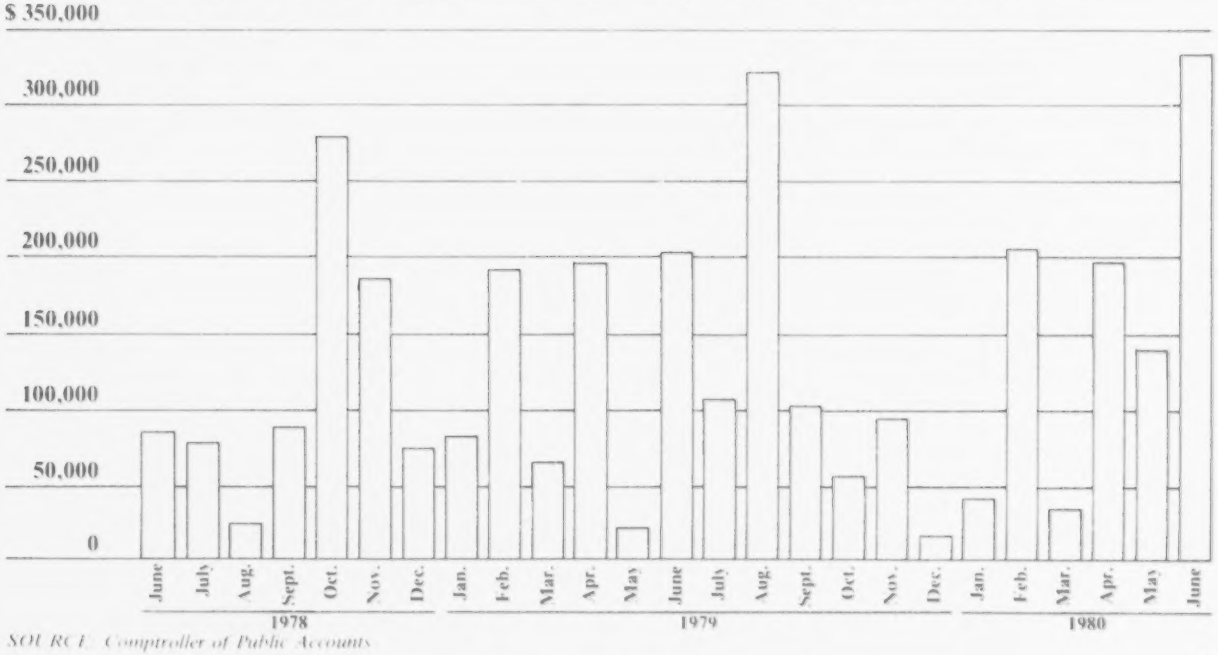


SOURCE: Comptroller of Public Accounts

[1]Excludes June, July and August 1978, during which collections were not broken down by individual category.

[1] Texas Revised Civil Statutes Annotated, Art. 4350, 1Supp. 1979).

FIGURE 3
Total Taxes Collected, Payee Records System By Month June 1978 — June 1980



SOURCE: Comptroller of Public Accounts

TEXAS PER CAPITA INCOME APPROACHES U.S. AVERAGE

Texas per capita personal income reached $8,649 in 1979, based on data published recently by the Bureau of Economic Analysis of the U.S Department of Commerce. This represents an increase of 11.7 percent above 1978. More significantly, per capita income in the state came closer than ever to the U.S. average. The Texas figure was only slightly below the $8,706 recorded for the U.S. in 1979.

Per capita income is often used by economists as a measure of economic well-being. Personal income includes estimates of salaries and wages, several types of business income, interest earnings and transfer payments such as retirement benefits, unemployment insurance and welfare payments. Social security contributions are then subtracted to avoid double counting. The remaining dollar amount is divided by an area's population to arrive at the "per capita" measure.

Texas has traditionally lagged behind the U.S. average in per capita income. (This is true of southern states in general.) However, the last 50 years have been marked by a convergence toward the U.S. average. This fact is illustrated in Figure 1, which shows Texas per capita income as a percent of the U.S. average. In 1929, Texas per capita income was only $480, 68.1 percent of the U.S. average. By 1940, this percentage had risen to 72.6 percent; by 1950, 90.2 percent. In the late 1950s and early 1960s, Texas income dipped as a percentage of U.S. personal income to the mid-80 percent range. The state's per capita income showed dramatic gains in the 1970s, though, climbing from 90.1 percent of the U.S. average in 1970 to 99.3 percent in 1979. The compound growth rates during 1970-79 for U.S. and Texas per capita income were 10.22 and 12.66 percent, respectively.

The prospects for Texas per capita income are good through the 1980s. Texas per capita personal income should exceed the U.S. average for the first time during 1980, based on estimates prepared by Chase Econometric Associates, Inc. The forecast for the 1980s shows Texas per capita personal income climbing steadily until it is nearly seven percent above the U.S. average in 1989.

Continued on page 6

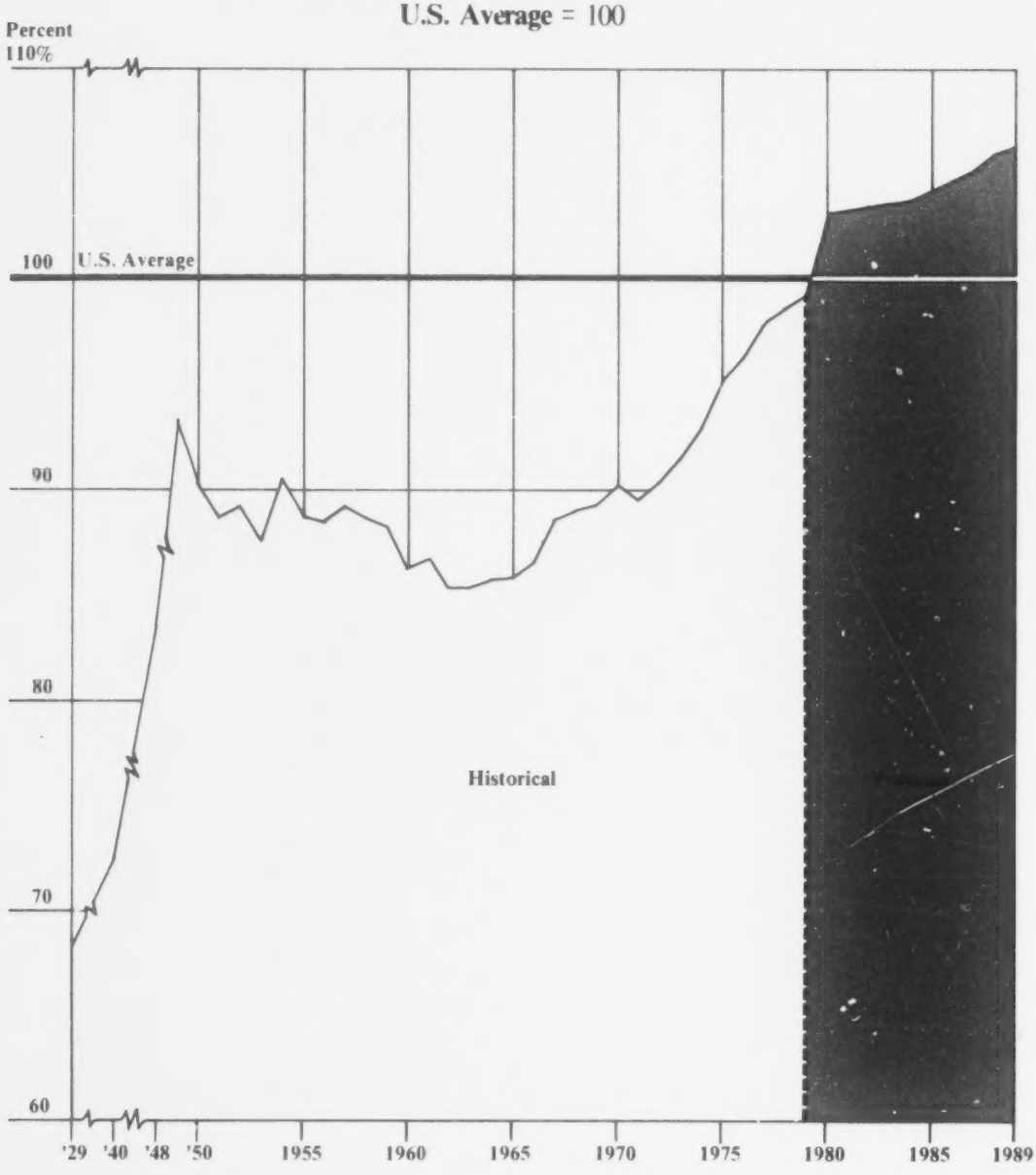
TABLE 1

Compound Growth Rates For Major Components of U.S. And Texas Personal Income, 1970-79 And 1980-89

Component	1970-79		1980-89	
	U.S.	Texas	U.S.	Texas
Manufacturing Wages	8.55%	11.67%	10.37%	12.48%
Non-Manufacturing Wages	9.75	12.62	9.63	10.87
Other Labor Income	16.11	18.83	13.27	15.11
Business and Farm Proprietor's Income	8.06	8.04	8.05	9.56
Property Income	11.05	13.50	10.15	10.99
Transfer Payments Less Social Insurance Paid	14.20	14.32	9.93	8.94
Total Personal Income	10.22	12.66	10.05	11.27

*SOURCE: Calculated from Chase Econometric Associates, Inc., **Regional Forecasts: State and Local Areas,** Supplementary Volume, April 1980, p. WSC T-69; and Ibid. **U.S. Macroeconomic Forecasts and Analysis: Long-Term Macroeconomic Forecasts,** March 1980, pp. 17-18.*

FIGURE 1
Texas Per Capita Personal Income As A Percentage Of U.S. Per Capita Personal Income, 1929 - 1989[1]
U.S. Average = 100



*[1]Historical data for 1929 - 1976 are taken from a printout supplied by the Bureau of Economic Analysis, BEA Regional Economics Information System, August, 1978; per capita income figures for 1977 - 79 are taken from, "State Personal Income," **Survey of Current Business** LX (April 1980), p. 25; U.S. personal income estimates are taken from Chase Econometric Associates, Inc., **U.S. Macroeconomic Forecasts and Analysis: Long-Term Macroeconomic Forecasts,** March 1980, pp. 17-18; U.S. Population estimates are taken from U.S. Bureau of the Census, **Population Estimates and Projections,** Series P-25, No. 704 (July 1977), Table 2, p. 23; Texas personal income and population estimates are taken from Chase Econometric Associates, Inc., **Regional Forecasts: State and Local Areas,** Supplementary Volume, April 1980, p. WSC T-69 and WSC T-74.*

TEXAS PER CAPITA INCOME *Continued*

Table 1 examines the compound growth rates during the 1970s and estimates for the 1980s for the various components of U.S. and Texas personal income. Between 1970-79, Texas outstripped the U.S. average in every category except Business and Farm Proprietor's Income, where the state stayed even. Non-Manufacturing Wages is the largest component, accounting for half of Total Personal Income. The Texas annual growth rate for this category during the 1970s was 12.62 percent, nearly three percent higher than the U.S. average. Manufacturing Wages in Texas also showed compound growth rates of three percent above the U.S. average, while Texas Property Income exhibited a rate two-and-one-half percent higher.

These trends are expected to continue during the 1980s. Again referring to Table 1, the compound growth rates for the different components of estimated personal income show Texas running almost a percentage point ahead of the U.S. average in every category except Transfer Payments. During the coming decade, Texas per capita income is expected to show average annual increases of 11.27 percent, compared with 10.05 percent for the U.S. as a whole.

Based on present estimates, Texas per capita personal income will reach $22,032 in 1989, while the figure for the U.S. will be $20,734. Does this mean that the average Texan will be three times better off than he or she is today? It's unlikely. It should be emphasized that these figures are not adjusted for inflation. Personal income figures also fail to consider cost-of-living differentials and do not take into account the distribution of income within a state or nation. (See "Is Texas Income Below Average?" in this issue of **Fiscal Notes**.) However, as long as Texas per capita income is showing increases relative to the rest of the country, it is likely that many Texans will experience a slightly higher standard of living when compared with their neighbors.

--Dan Casey

Editor's Note: As this issue went to press, the U.S. Department of Commerce released revised state per capita personal income figures for 1979. Texas exceeded the U.S. average for the first time, with the state's per capita income estimated at $8,788 in 1979 compared with $8,773 for the U.S.

IS TEXAS INCOME BELOW AVERAGE ?

The U.S. Commerce Department recently released its 1979 comparison of state per capita personal income. It showed that Texas per capita income --that is, total state income divided by state population--was $8,649, up 11.7 percent over 1978 but still below the national average of $8,706. Texas ranked 21st among the 50 states.

Per capita income statistics reveal very little about state income, of course. They tell nothing about variations in the sources of income among states, for example, and they do not show the distribution of income among a state's citizens. Nonetheless, the figures are widely quoted and are frequently used--and misused--as measures of the relative prosperity of the states.

Even as general indicators, however, per capita income figures have shortcomings. They neglect the fact that a dollar does not go as far in some places as in others. Consider the difference, for example, between living costs in New York City and a small Texas town. Housing, food and energy costs all vary widely among the states and among regions of the country. The price of government, reflected in state and local tax burdens, is also much higher in some states than in others. In addition, the federal income tax burden is generally higher in states with high nominal income, even though that higher income may buy less than a lower income in a state with lower living costs.

Unfortunately, there is no readily available standard index for adjusting state income for these tax and living cost differences. However, by combining several available sources, it is possible to develop a simple set of adjustments to make per capita income figures more closely reflect the economic differences among the states.

Adjusting Income

Table 1 shows the result of one

technique for adjusting state per capita income figures.[1] In this estimate 1978 data are used because all of the necessary data for 1979 are not yet available.

The first column shows the unadjusted 1978 per capita income figures developed by the Commerce Department.[2] Texas' 1978 figure was $7,746, just under 99 percent of the U.S. average of $7,840. Among the 50 states, Texas ranked 21st, as in 1979. Alaska, Nevada and California had the highest per capita incomes, while Mississippi, Arkansas and South Carolina had the lowest.

The first step in the adjustment process is to subtract per capita federal, state and local taxes (columns 2 and 3) from the income amounts. The resulting aftertax figures are shown in the fourth column and are themselves of interest because they demonstrate the influence of taxes on income. In Texas, for example, combined taxes represented just over 32 percent of per capita income. Nonetheless, the tax burden in Texas was below the national average of 34.1 percent and lower than all but 13 of the other states. Idaho had the lowest combined tax burden at 30.1 percent of per capita income.

In contrast, Alaska had the highest per capita tax burden, amounting to 47.3 percent of pretax income. New York's combined tax burden at 39.1 percent of income was also significantly above most states.

The differences in relative tax burdens are reflected in shifts in the rankings of the states based on the aftertax figures. Alaska, which had by far the highest unadjusted income, drops to third after the tax adjustment. More significantly, New York, which ranked 13th on the pretax list, drops all the way to 26th based on the aftertax figures. Meanwhile, Texas with its relatively low tax burden, moves to 18th on the basis of aftertax income. The top three states based on aftertax income are Nevada (previously second), Illinois (previously fifth) and Alaska (down from first).

Cost-of-Living Differences

The next step is to adjust the aftertax figures for differences in nontax living costs, like housing and food. This is where difficulties arise, since no reliable index has been developed for this purpose. The best available alternative is the comparative family budget estimates published annually by the federal Bureau of Labor Statistics (BLS).[3] The BLS budget estimates show comparative living costs for lower, intermediate and higher income families in various U.S. urban areas. The 1978 study used in this analysis covered 39 urban areas, including Austin, Dallas and Houston (Table 2). Also included were estimates for the U.S. average and for nonmetropolitan areas in the four Census regions of the U.S.: Northeast, North Central, South and West. (Texas falls into the South region.)

The development of a cost-of-living index from these budget figures requires several steps. First, an average living cost figure for each state is developed. The Texas figure, for example, is derived by averaging the budget totals (excluding taxes) for the three Texas cities in the survey weighted according to their share of state population. A second average is then developed for the portion of the state's citizens living in nonmetropolitan areas. Since the BLS data for nonmetropolitan areas is not divided by state, it is necessary to use regional averages. Thus, living costs for the roughly 20 percent of Texans living in rural areas are estimated from average living costs in the South region as a whole.

The metropolitan and nonmetropolitan averages, again weighted by population, are then combined to form a single statewide average. The U.S. average is then expressed as a percentage of the statewide average to produce a nontax cost-of-living index which can then be used to adjust the aftertax income figure up or down. The result is the "adjusted per capita income" amount shown in the last column of Table 1.

Using the methodology described above, the Texas cost-of-living index was found to be 1.068, implying that in 1978 it took an average of just under

Continued on page 9

[1] *For other efforts along the same lines see Carol L. Jusenius and Larry C. Leburdur, **A Myth in the Making: The Southern Economic Challenge and Northern Economic Decline** (Washington, D.C.: U.S. Department of Commerce, Economic Development Administration, 1976); First National Bank of Chicago, "Is Mississippi Richer Than New York?" **World Report** (May-June 1979), pp. 4-7.*

[2] *U.S. Department of Commerce, Bureau of Economic Analysis, "1979 State Per Capita Personal Income," **News** (May 11, 1980), pp. 6-7.*

[3] *U.S. Department of Labor, Bureau of Labor Statistics, "Autumn 1978 Urban Family Budgets and Comparative Indexes for Selected Urban Areas," **News** (April 29, 1979). Estimates for 1979 are also available but are not used because other data necessary for the analysis are not yet available for 1979.*

TABLE 1
State Per Capita Personal Income
Adjusted For Tax And Cost-Of-Living Differences, 1978

State	Per Capita Personal Income	Per Capita Federal Taxes	Per Capita State and Local Taxes	Aftertax Income	Adjusted Per Capita Income
U.S. AVERAGE	$ 7,840	$1,788	$ 888	$5,164	$5,164
Alabama	6,325	1,368	566	4,391	4,747
Alaska	10,849	3,259	1,871	5,719	4,233
Arizona	7,385	1,561	907	4,917	5,002
Arkansas	6,121	1,305	553	4,263	4,674
California	8,916	2,007	1,227	5,682	5,722
Colorado	8,116	1,801	882	5,433	5,533
Connecticut	8,915	2,297	941	5,677	5,326
Delaware	8,531	2,136	943	5,452	5,769
Florida	7,578	1,704	699	5,175	5,631
Georgia	6,779	1,435	672	4,672	5,128
Hawaii	8,465	1,955	1,059	5,451	4,889
Idaho	7,074	1,428	701	4,945	5,249
Illinois	8,870	2,095	917	5,858	5,829
Indiana	7,703	1,776	707	5,220	5,348
Iowa	7,856	1,776	794	5,286	5,558
Kansas	7,846	1,812	798	5,236	5,454
Kentucky	6,605	1,405	662	4,538	4,712
Louisiana	6,738	1,495	716	4,527	4,926
Maine	6,308	1,394	758	4,156	4,091
Maryland	8,348	2,002	985	5,361	5,584
Massachusetts	7,926	1,819	1,098	5,009	4,402
Michigan	8,487	1,950	959	5,578	5,567
Minnesota	7,904	1,800	1,001	5,103	5,277
Mississippi	5,582	1,168	589	3,825	4,231
Missouri	7,287	1,693	653	4,941	5,126
Montana	6,915	1,547	817	4,551	4,811
Nebraska	7,544	1,694	814	5,036	5,235
Nevada	9,377	2,142	1,004	6,231	6,313
New Hampshire	7,378	1,710	569	4,999	4,821
New Jersey	8,775	2,140	993	5,642	5,157
New Mexico	6,599	1,417	763	4,419	4,637
New York	8,230	1,906	1,308	5,016	4,615
North Carolina	6,640	1,407	643	4,590	4,995
North Dakota	7,432	1,612	721	5,099	5,351
Ohio	7,857	1,813	701	5,343	5,402
Oklahoma	7,127	1,550	660	4,917	5,339
Oregon	8,076	1,811	872	5,393	5,554
Pennsylvania	7,744	1,767	862	5,115	5,125
Rhode Island	7,447	1,748	848	4,851	4,551
South Carolina	6,292	1,311	615	4,366	4,766
South Dakota	6,585	1,469	683	4,433	4,676
Tennessee	6,561	1,425	613	4,523	4,922
TEXAS	7,746	1,781	707	5,258	5,616
Utah	6,594	1,439	728	4,427	4,494
Vermont	6,601	1,361	837	4,403	4,312
Virginia	7,721	1,736	757	5,228	5,313
Washington	8,553	2,002	929	5,622	5,605
West Virginia	6,629	1,487	675	4,467	4,914
Wisconsin	7,532	1,726	970	4,836	4,920
Wyoming	8,687	2,043	1,156	5,488	5,646

*SOURCE: Computed from U.S. Department of Commerce, "1979 State Per Capita Personal Income," **News** (May 11, 1980), pp. 4-7 and **Governmental Finances in 1977-78** (Washington, D.C., 1980), p. 90; Tax Foundation, Inc., **Monthly Tax Features**, Vol. 23, No. 2 (February 1979), p. 3; U.S. Department of Labor, Bureau of Labor Statistics, "Autumn 1978 Urban Family Budgets and Comparative Indexes for Selected Urban Areas," **News** (April 29, 1979).*

TABLE 2
Annual Costs For An Intermediate Budget For A Family Of Four
Selected Cities And U.S. Average, 1978

Item	U.S. Urban Average	Austin	Dallas	Houston
Total Budget	$18,622	$16,211	$16,714	$17,114
Food	4,609	4,152	4,330	4,431
Housing[1]	4,182	3,428	3,589	3,609
Transportation	1,572	1,589	1,598	1,576
Clothing	1,209	1,296	1,110	1,257
Personal Care	403	391	406	440
Medical Care	1,070	991	1,186	1,205
Other Items[2]	1,766	1,744	1,735	1,723
Social Security and Disability Payments	1,073	980	1,010	1,035
Personal Income Taxes[3]	2,738	1,640	1,750	1,838

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, "Autumn 1978 Urban Family Budgets and Comparative Indexes for Selected Urban Areas," News (April 29, 1979), Table 2.

[1]Includes both cost of shelter and of home operations and furnishings.
[2]Includes a range of items such as recreation, tobacco products, alcoholic beverages, education, life insurance, gifts and other miscellaneous expenses.
[3]Not the same as the tax figures shown in Table 1, which reflect statewide per capita amounts.

Below Average? *Continued*

$1.07 nationally to purchase what could be bought in Texas for a dollar. The Texas aftertax income figure ($5,258) is multiplied by the index value to reflect this difference in purchasing power. The resulting adjusted figure is $5,616, as shown in the table. Where a state's living costs were higher than the U.S. average, the aftertax income figure was adjusted downward in a similar manner. (See, for example, Alaska, Connecticut and Hawaii in Table 1.)

One obvious problem with this technique is that the BLS budget estimates cover only 28 states, although these generally include all of the major industrial states. Where no budget figures exist, the metropolitan and nonmetropolitan indexes for the region into which the state falls are used. For example, Alabama's index was computed using budget figures for the South region. While this procedure obviously produces only a rough estimate for these states, the results are nonetheless preferable to the federal figures which reflect no living cost variations.

What the Adjustments Show

One major result of this estimating procedure is to cause considerable shifting in the rankings of the states. As might be expected, the adjustments raise the position of low cost states while lowering the rank of states with relatively high living costs and taxes. The degree of shifting is illustrated in Table 3, which compares the states ranked by unadjusted and adjusted income. Under the unadjusted figures, Texas ranked 21st and was below the U.S. average. With the adjustments, Texas ranks seventh with a per capita figure almost nine percent higher than the U.S. average.

Some states with fairly high unadjusted incomes do not fare as well. Alaska, for example, drops all the way from first on an unadjusted basis to 48th after adjustment. Other states experiencing significant drops in ranking were New York, which was 13th on an unadjusted basis but 43rd after adjustment, and Massachusetts, which fell from 16th to 46th.

Much the same results can be seen when the states are aggregated into regions, as Figure 1 shows. There is very little change in the unadjusted and

Continued on page 11

TABLE 3
1978 Per Capita Income Comparisons
All States Ranked By Level Of Income

Before Tax and Cost-of-Living Adjustments

	State	Unadjusted Per Capita Income	Percent of U.S. Average
1	Alaska	$10,849	138%
2	Nevada	9,377	120
3	California	8,916	114
4	Connecticut	8,915	114
5	Illinois	8,870	113
6	New Jersey	8,775	112
7	Wyoming	8,687	111
8	Washington	8,553	109
9	Delaware	8,531	109
10	Michigan	8,487	108
11	Hawaii	8,465	108
12	Maryland	8,348	107
13	New York	8,230	105
14	Colorado	8,116	104
15	Oregon	8,076	103
16	Massachusetts	7,926	101
17	Minnesota	7,904	101
18	Ohio	7,857	100
19	Iowa	7,857	100
20	Kansas	7,846	100
	U.S. AVERAGE	7,840	100
21	TEXAS	7,746	99
22	Pennsylvania	7,744	99
23	Virginia	7,721	99
24	Indiana	7,703	98
25	Florida	7,578	97
26	Nebraska	7,544	96
27	Wisconsin	7,532	96
28	Rhode Island	7,447	95
29	North Dakota	7,432	95
30	Arizona	7,385	94
31	New Hampshire	7,378	94
32	Missouri	7,287	93
33	Oklahoma	7,127	91
34	Idaho	7,074	90
35	Montana	6,915	88
36	Georgia	6,779	86
37	Louisiana	6,738	86
38	North Carolina	6,640	85
39	West Virginia	6,629	85
40	Kentucky	6,605	84
41	Vermont	6,601	84
42	New Mexico	6,599	84
43	Utah	6,594	84
44	South Dakota	6,585	84
45	Tennessee	6,561	84
46	Alabama	6,325	81
47	Maine	6,308	80
48	South Carolina	6,292	80
49	Arkansas	6,121	78
50	Mississippi	5,582	71

After Tax and Cost-of-Living Adjustments

	State	Adjusted Per Capita Income	Percent of U.S. Average
1	Nevada	$6,313	122%
2	Illinois	5,829	113
3	Delaware	5,769	112
4	California	5,722	111
5	Wyoming	5,646	109
6	Florida	5,631	109
7	TEXAS	5,618	109
8	Washington	5,605	109
9	Maryland	5,584	108
10	Michigan	5,567	108
11	Iowa	5,558	108
12	Oregon	5,554	108
13	Colorado	5,533	107
14	Kansas	5,454	106
15	Ohio	5,402	105
16	North Dakota	5,351	104
17	Indiana	5,348	104
18	Oklahoma	5,339	103
19	Connecticut	5,326	103
20	Virginia	5,313	103
21	Minnesota	5,277	102
22	Idaho	5,249	102
23	Nebraska	5,235	101
	U.S. AVERAGE	5,164	100
24	New Jersey	5,157	100
25	Georgia	5,128	99
26	Missouri	5,126	99
27	Pennsylvania	5,125	99
28	Arizona	5,002	97
29	North Carolina	4,995	97
30	Louisiana	4,926	95
31	Tennessee	4,922	95
32	Wisconsin	4,920	95
33	West Virginia	4,914	95
34	Hawaii	4,889	95
35	New Hampshire	4,821	93
36	Montana	4,811	93
37	South Carolina	4,766	92
38	Alabama	4,747	92
39	Kentucky	4,712	91
40	South Dakota	4,676	91
41	Arkansas	4,674	91
42	New Mexico	4,637	90
43	New York	4,615	89
44	Rhode Island	4,551	88
45	Utah	4,494	87
46	Massachusetts	4,402	85
47	Vermont	4,321	84
48	Alaska	4,233	82
49	Mississippi	4,231	82
50	Maine	4,091	79

SOURCE: Table 1.

Below Average? *Continued*

adjusted figures as a percentage of the U.S. average for the North Central and Western states; however, the position of the South and the Northeast are changed dramatically by the adjustment process. Without adjustment, the South's per capita income was only about 91 percent of the U.S. average. After adjustment, it rises to $5,196, slightly above the national figure of $5,164. On the other hand, the Northeast's per capita figure drops from 3.5 percent above to 6.4 percent below the U.S. average as a result of the adjustments.

Another result of the adjustment procedure is to narrow the variation in income levels among the states, suggesting that in terms of real buying power, average state incomes may be much closer than conventional per capita figures indicate. A gap of $5,267 separates Alaska's unadjusted per capita income at $10,849 from Mississippi's at $5,582. The gap amounts to more than 94 percent of Mississippi's income. Once the living cost adjustments are made, the gap between the highest income state, Nevada, and the lowest, Maine, shrinks to only about $2,222, about 54 percent of Maine's adjusted income figure.

Similarly, the income gap between regions of the country is also reduced by adjustment. An estimated $1,343 separates the South region, with the lowest per capita income, from the West, with the highest, before adjustments are made (Figure 1). This represents about 19 percent of the South's per capita income. After tax and living cost differences are considered, the distance between the lowest (the Northeast) and the highest (the West again) falls to $722, about 15 percent of the Northeastern figure.

Perhaps the most important outcome of the analysis is to underscore the inadequacy of conventional per capita income figures as indicators of relative state prosperity. While the adjusted income figures are necessarily rough, they demonstrate the highly variable impact of taxes and living costs on real income. They also suggest that conclusions drawn from the unadjusted figures should be viewed with a certain amount of skepticism.

—Billy Hamilton, Tom Lopez

FIGURE 1
Regional Per Capita Income Comparisons, 1978

Northeast

	Per Capita Income	Percent of U.S. Average
Unadjusted	$8,113	103.5%
Adjusted	$4,826	93.5%

North Central

	Per Capita Income	Percent of U.S. Average
Unadjusted	$8,039	102.5%
Adjusted	$5,432	105.2%

West

	Per Capita Income	Percent of U.S. Average
Unadjusted	$8,451	107.8%
Adjusted	$5,548	107.4%

South

	Per Capita Income	Percent of U.S. Average
Unadjusted	$7,108	90.7%
Adjusted	$5,196	100.6%

U.S. Average

	Per Capita Income	Percent of U.S. Average
Unadjusted	$7,840	100%
Adjusted	$5,164	100%

SOURCE: Computed from Table 1 and U.S. Department of Commerce, Bureau of the Census, "Estimates of the Population of States, by Age: July 1, 1971 to 1979," Series P-25, No. 875 (January 1980), Table 2.

TEXAS ENERGY REPORT

BOB BULLOCK, COMPTROLLER OF PUBLIC ACCOUNTS

AUGUST - SEPTEMBER, 1980

TEXAS DEVELOPS SOLAR ENERGY INITIATIVES

Interest in renewable energy has intensified in the past several years in response to the vivid price and supply lessons of the 1973 OPEC oil embargo. Renewable energy is derived from sources having an inexhaustible supply as opposed to depletable fossil fuel sources. Three predominant renewable energy sources which can be converted into thermal, mechanical or electrical energy are: (1) solar energy, available from the sun's radiant waves; (2) wind energy, available from wind created by the sun's heat moving air across the surface of the earth; and (3) biomass, solar energy that is imparted to living plants through photosynthesis. As currently defined in Texas law, Solar energy devices include devices used in the conversion of solar, wind and biomass energy.[1]

Since 1975, Texas and 46 other states have enacted tax incentives to encourage the development and use of renewable energy. In addition, state and federally-mandated programs have been established to accelerate the economic feasibility and general availability of renewable energy sources. These incentives and programs in Texas are reviewed below.

Solar Energy Tax Incentives

Texas was among the first states to offer tax incentives for the use and development of renewable energy sources. In 1975, the Legislature enacted laws exempting the sale of Solar energy devices from the sales tax and allowing corporations to deduct the cost of Solar energy devices used in the state from taxable capital in computation of the franchise tax base. Further, corporations engaged exclusively in the business of manufacturing, selling **and** installing Solar energy devices were fully exempted from the franchise tax. In 1977, this exemption was broadened to cover corporations engaged exclusively in manufacturing, selling **or** installing Solar energy devices.

By 1978, a total of 24 states had enacted similar incentives. In that year, Texas voters approved a constitutional amendment permitting the Legislature to exempt solar and wind energy devices from **all** state and local taxation.

By the end of 1979, all but three of the 50 states were offering some sort of tax incentives for renewable energy. The 66th Texas Legislature enacted exemptions from property taxes, the only applicable remaining tax from which Solar energy devices had not already been exempted. The property tax exemption significantly expanded the statutory definition of "Solar" to include "passive elements" and biomass.

Passive solar devices and design elements put solar energy to work without assistance from fans, pumps or other energy consuming mechanical devices. Their exemption was viewed as a victory for solar architects who had long maintained that properly designed and oriented passive solar residential and commercial structures could offer occupant comfort with a fraction of the energy consumed in conventional buildings.

These passive elements were first defined for property tax purposes by the Comptroller's Office and presented at the statewide Texas Solar Realities '79 Conference in Austin in December 1979. Examples of these elements are pictured in the accompanying diagrams.

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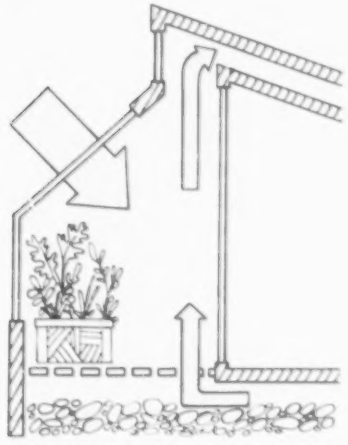
[1]In this article, the term "Solar," where capitalized, refers to energy derived both directly and indirectly (wind) from the sun. The lower case "solar" refers only to the radiant energy of sunlight.

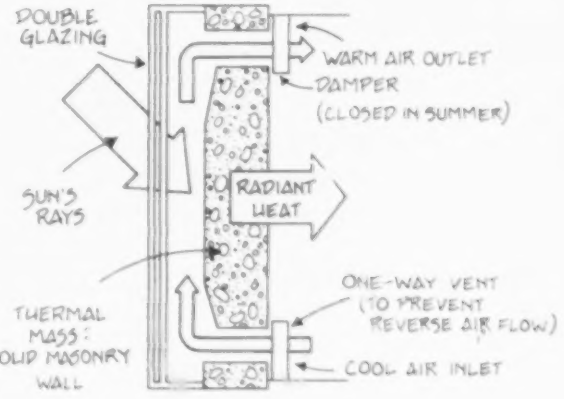
TEXAS ENERGY REPORT

Although these incentives have been in effect for nearly five years, the Texas experience parallels that of the other states which have enacted similar laws: so far the exemptions have had little impact on revenue or on Solar energy development. However, Texans can expect to see accelerated development of these renewable energy resources in the near future as the result of the continued escalation of fossil fuel prices, development and innovation of more economically feasible Solar equipment and designs, and several state and federal policy initiatives now taking shape. A review of these initiatives follows.

GREENHOUSE



TROMBE WALL



Solar Advisory Committee

Last December the Texas Energy and Natural Resources Advisory Council (TENRAC) approved a resolution creating a Solar Advisory Committee charged with: (1) determining the likely importance of Solar energy in the Texas energy future; (2) assessing Texas' Solar energy needs over the next 25 years; (3) determining the appropriate role of the state in efforts to facilitate the development and acceptance of Solar technologies; (4) examining effective mechanisms for state involvement in Solar development such as direct cost sharing, management of federal programs, tax incentives, etc; (5) recommending the level and timing of state involvement; and (6) recommending policies essential to the accomplishment of these objectives.

The 24 member committee, chaired by Railroad Commissioner Mack Wallace, first met in Austin on March 17, 1980. The committee has spent recent months in hearings and visits across Texas and in neighboring states studying the status of Solar technologies and plans for their future development and listening to testimony concerning the state's role in speeding the shift from fossil fuels to renewable energy sources.

Among the sites in Texas the committee visited are:

- Crosbyton, Texas, where Texas Tech faculty members are working with federal and private groups in developing a solar-powered electrical generating plant with an anticipated capacity of five megawatts (5,000 kilowatts);

- Trinity University in San Antonio, where prototype structures are being built to test computer simulations of cooling and heating

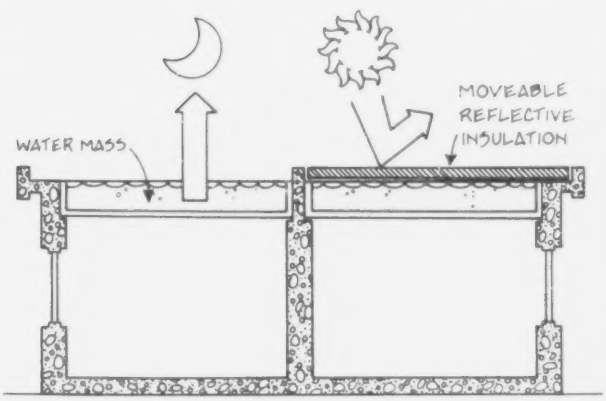
Continued

homes without fossil fuels in the humid zones of the southern U.S.;

- Photon Power, Inc., of El Paso, where private industry is attempting to drive down the cost of photovoltaic cells--which convert sunlight directly to electricity--through mass production; and,

- The University of Houston Energy Lab, where researchers are refining devices needed for a solar "power tower," which uses a field of moveable mirrors concentrating sunlight on a central receiver to produce high temperatures for driving electricity-generating turbines.

ROOF POND



On July 16, the committee approved a preliminary report. Assuming that all institutional barriers--legal and financial disincentives, restrictive building codes, etc.--are removed, the committee estimated, "Solar and wind resources can provide 15 percent of Texas energy needs in the year 2000."[2] This is equivalent to 400 million barrels of oil per year or two trillion cubic feet of natural gas, approximately 2.3 quadrillion BTUs (quads) per year. Since it was estimated that the single major contributor to these 2.3 quads would be low temperature active and passive thermal solar energy devices, the recommendations of the committee dwell heavily on incentives for using this resource in residential and commercial buildings. Among the preliminary recommendations for state involvement in encouraging the use and development of renewable energy are:

- Seeking legislation permitting the sale of tax-exempt bonds through a nonprofit corporation to provide low interest loans for residential and commercial Solar energy equipment and components;

- Giving priority consideration to Solar-using applicants for loans under existing state programs using tax-exempt bonds for home mortgages;

- Broadening the present franchise tax exemption to include companies with some, but not exclusive, Solar energy involvement;

- Providing training for tax assessors on application of the present solar and wind energy property tax exemption;

- Mandating the use of solar energy in all new state buildings, where feasible, after August 31, 1981;

- Centralizing and expanding the role of TENRAC in increasing Solar energy use and development in Texas;

- Protecting consumers by adopting standards for testing of Solar energy systems and by

[2] *"Solar Energy in Texas: Resources, Technology and Applications," (draft) prepared by the Subcommittee on Resources and Technology, Solar Advisory Committee to the Texas Energy and Natural Resources Advisory Council, p. iv.*

requiring licensing of installers of Solar energy systems;

- Seeking expansion of current Federal Housing Authority and Veterans Administration home mortgage programs to include the addition of Solar equipment to nonsolar systems in existing structures; and,

- Considering studies by the Railroad Commission and the Public Utility Commission on the possibilities and advantages of utility company financing for home solar water heaters.

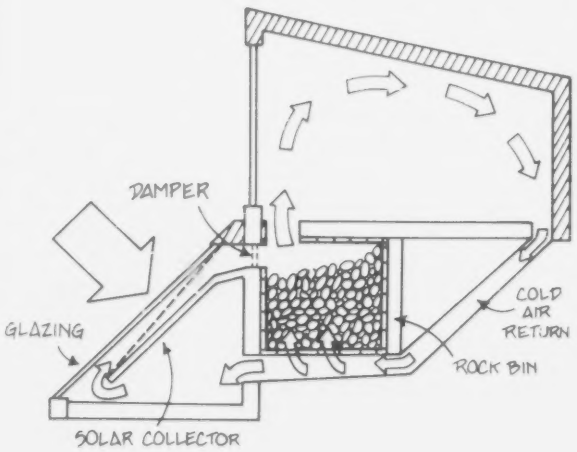
Final action on the Solar Advisory Committee's recommendations--which are due to be presented to TENRAC in September--will depend on TENRAC and the Legislature. However, the federally-mandated Residential Conservation Service, discussed below, is scheduled to begin operation in Texas early next year and can be expected to accelerate renewable energy development.

Residential Conservation Service

The Residential Conservation Service (RCS), established under the Federal National Energy Conservation Policy Act of 1978, requires regulated gas and electric utilities to provide low- or no-cost energy audits in customer homes and recommend energy-saving steps that include the use of renewable energy sources where applicable. If a customer opts for such systems, the utility will further be required to assist the customer in acquiring them with warranties, materials and installation standards, post-installation inspections, billing and repayment of loans through fuel bills, complaint proceedings and qualification of suppliers, installers and lenders. The proposed Texas RCS plan includes 12 of the state's largest private electric utilities, six gas utilities and four nonregulated publicly-held utilities which are included because of the volume of their sales. This last group includes city utilities in Austin, Garland, San Antonio and the Lower Colorado River Authority.

On approval of the proposed Texas plan by the Department of Energy, the Texas RCS is due to become operational early in 1981 and continue through the first half of 1986.

ROCK BIN



Conclusion

Although existing tax incentives for renewable energy sources in Texas have had little effect so far in prompting conversion from fossil fuels, important initiatives in the form of the Solar Advisory Committee recommendations and the federally-mandated Residential Conservation Service can be expected to contribute to future conversion. As state and federal governments work to promote the use and development of Solar energy technology, the range of economically feasible Solar energy systems which can displace traditional fuels will expand. In addition, as Dr. Maurice Katz, Chief of the Department of Energy's Solar Division, told a recent industry meeting, the development and commercialization of renewable energy sources can not only save fossil fuels, but also "set an upper limit" on their cost.

--John Moore

REVENUE BY PROGRAM CATEGORY ABSTRACT

Revenue from the different areas of state activity is shown in the accompanying table. Personal property, which includes the sales, inheritance and property taxes, is the largest revenue category--nearly $2.3 billion or 22.5 percent of the year-to-date total. June and July receipts from personal property taxes and related licenses and fees were $138.8 million and $183.8 million, respectively.

Natural resources brought in $199.3 million during July for a year-to-date total of almost $1.9 billion. This represents a 50 percent increase above a year ago. This group of revenue includes the oil and gas royalties, leases and land sales.

In the area of transportation, July collections from various licenses and fees, motor vehicle sales and rental taxes, and motor fuel taxes totaled $161.9 million. This category has accounted for $1.6 billion--or 16 percent--of state revenue since September.

Fourteen percent of total revenue so far is from miscellaneous sources in the "Other" category. With July revenue of $139.3 million, this category now accounts for $1.4 billion during fiscal 1980. Most of these receipts are from federal revenue sharing and interest income, as well as other sources.

Welfare and MHMR receipts--principally federal grants--totaled $80.9 million in July. Fiscal 1980 receipts for this category are $919.6 million, 9.4 percent of total revenue.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenue		Year-to-Date September 1979—July 1980			
	June 1980	July 1980	Revenue	Percent Of Total	Change From Last FY	
Transportation[2]	$ 138.5	$161.9	$ 1,608.8	16.0%	$+ 485.7	+ 43.2%
Personal Property	138.8	183.8	2,259.4	22.5	+ 345.2	+ 18.0
Business Regulation	289.9	23.0	393.2	3.9	+ 55.7	+ 16.5
Insurance	4.8	21.8	181.9	1.8	+ 9.5	+ 5.5
Utilities	0.3	21.8	151.8	1.5	+ 36.3	+ 31.4
Alcoholic Beverages	17.5	20.3	194.6	1.9	+ 18.6	+ 10.6
Tobacco	28.4	28.5	294.4	2.9	+ 13.1	+ 4.7
Natural Resources	184.5	199.3	1,895.2	18.8	+ 631.2	+ 50.0
Agriculture	0.2	0.3	3.4	0	+ 0.2	+ 7.9
Parks and Wildlife	2.5	3.8	34.0	0.3	- 2.9	- 7.9
Education	55.9	67.3	574.4	5.7	+ 84.0	+ 17.1
Health	13.3	14.2	136.0	1.4	+ 13.1	+ 10.7
Welfare and MHMR	55.0	80.9	919.6	9.4	+ 13.9	+ 1.5
Other[2]	138.6	139.3	1,412.3	14.0	- 5.7	- 0.4
TOTAL REVENUE[3]	$1,068.1	$966.3	$10,059.0	100.0%	$+1,697.9	+ 20.3%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Previously, Federal Receipts for transportation programs were recorded as "Federal Receipts-Other." These entries were transferred to the Transportation category in February, explaining the 43.2 percent increase in the "Transportation" category and the 0.4 percent decrease in the "Other" category.
[3]Totals may not add due to rounding.

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STATE REVENUE ABSTRACT

Revenue from all state funds was slightly under $1.1 billion in June and $966.3 million in July, bringing the year-to-date total to over $10 billion. This is a $1.7 billion or 20.3 percent increase over revenue from the same period last year. Tax collections comprised 56.2 percent of all revenue--almost $5.7 billion from September through July.

The predominant tax source, the sales tax, brought in $126.6 million in June and $173 million in July. Sales tax revenue registered a $343.1 million--or 19 percent--increase over the same period a year ago.

Natural gas and oil production taxes continue to exhibit significant increases this year. When combined these taxes represent a $452.2 million increase over last year. The natural gas production tax has increased by 33.6 percent, while oil production taxes have increased by 67.3 percent. Unlike these taxes, the motor vehicle sales tax, with year-to-date receipts of $395.8 million, is only 0.3 percent above last year.

Year-to-date federal funds of nearly $2.4 billion make up 23.8 percent of total revenue and show a 14.9 percent increase over receipts for the same period l[illegible] year. Interest income has also substantially increased this year. The $945.3 million received so far is 25.8 percent more than last year's receipts.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

Tax Collections by Major Tax	Monthly Revenue June 1980	Monthly Revenue July 1980	Year-to-Date September 1979—July 1980 Revenue	Percent Of Total	Change From Last FY	
Sales Tax	$ 126.6	$173.0	$ 2,144.7	37.9%	$+ 343.1	+ 19.0%
Natural Gas Production Tax	64.9	64.8	670.7	11.9	+ 168.8	+ 33.6
Motor Fuels Taxes	40.5	40.1	441.5	7.8	- 6.2	- 1.4
Oil Production Taxes	77.6	76.9	704.3	12.4	+ 283.4	+ 67.3
Motor Vehicle Sales Tax	31.6	38.6	395.8	7.0	+ 1.3	+ 0.3
Cigarette and Tobacco Taxes	28.4	28.5	293.9	5.2	+ 13.1	+ 4.7
Corporation Franchise Tax	286.7	16.2	336.9	6.0	+ 46.8	+ 16.1
Alcoholic Beverage Taxes	16.6	19.3	184.5	3.3	+ 18.2	+ 10.9
Insurance Companies Taxes	3.9	21.0	173.1	3.1	+ 7.0	+ 4.2
Utility Taxes[2]	0.2	8.2	94.0	1.7	+ 18.0	+ 23.7
Inheritance Tax	5.9	5.7	68.7	1.2	+ 2.3	+ 3.5
Ad Valorem (Property) Tax	5.7	5.6	42.9	0.7	- 1.7	- 3.9
Telephone Tax	0	13.6	57.7	1.0	+ 18.2	+ 46.2
Other Taxes[3]	1.4	6.8	43.6	0.8	+ 7.8	+ 21.7
TOTAL TAX COLLECTIONS[4]	$ 690.0	$518.3	$ 5,652.4	100.0%	$+ 920.1	+ 19.4%
Revenue by Source						
Tax Collections (detail above)	$ 690.0	$518.3	$ 5,652.4	56.2%	$+ 920.1	+ 19.4%
Federal Funds	212.8	261.2	2,392.1	23.8	+ 310.4	+ 14.9
Interest Income	107.7	81.7	945.3	9.4	+ 193.8	+ 25.8
Licenses and Fees	2.5	39.6	436.4	4.3	+ 64.9	+ 17.5
Land Income: Rents, Royalties, Sales	42.6	55.9	511.1	5.1	+ 163.1	+ 46.9
Other Revenue Sources[5]	12.5	9.7	121.7	1.2	+ 45.6	+ 59.9
TOTAL REVENUE[4]	$1,068.1	$966.3	$10,059.0	100.0%	$+1,697.9	+ 20.3%

[1] Excludes some revenue not cleared through the Comptroller's Office.
[2] Includes the Utility Tax, Gas Utility Administration Tax and the Public Utilities Gross Receipts Tax.
[3] Includes the Hotel-Motel, Cement and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4] Totals may not add due to rounding.
[5] Patient Maintenance and Support Fees, Grants, Donations and Miscellaneous Revenue.

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STATE EXPENDITURES ABSTRACT

State expenditures were $746.4 million in June and $947.7 million in July, boosting year-to-date disbursements to almost $9.5 billion for all state funds. This represents an 18.1 percent or $1.5 billion increase above the same period last year.

Education continues to be the major function of state government, with 46.3 percent of each state dollar spent to support state and local education. Educational outlays in July totaled $382.2 million,

Continued on next page

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures		Year-to-Date September 1979—July 1980			
	June 1980	July 1980	Expenditures	Percent Of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 15.7	$ 14.5	$ 167.2	1.8%	$+ 35.8	+27.2%
Business Regulatory Commissions	5.1	5.6	54.5	0.6	+ 7.3	+15.4
Legislative	2.0	1.9	21.2	0.2	- 1.6	- 6.9
Judicial	2.1	2.1	23.4	0.2	+ 3.5	+17.5
TOTAL	$ 24.9	$ 24.2	$ 266.3	2.8	$+ 44.0	+20.3
SERVICES						
Welfare	$141.2	$140.1	$1,468.9	15.5%	$+ 95.5	+ 7.0%
Mental Health, State Homes and Corrections	45.4	45.4	469.2	5.0	+ 53.5	+12.9
Health and Sanitation	13.5	12.9	141.6	1.5	+ 12.0	+ 9.2
Law Enforcement	9.5	9.1	95.0	1.0	+ 12.3	+14.8
TOTAL	$209.7	$207.4	$2,174.7	23.0	$+ 173.2	+ 8.7
IMPROVEMENTS						
Highway Maintenance & Construction	$151.1	$195.1	$1,391.8	14.7%	$+ 479.8	+52.6%
Natural Resources	8.0	8.0	85.3	0.9	+ 6.4	+ 8.2
Parks and Monuments	6.1	9.6	55.1	0.6	+ 11.5	+26.3
TOTAL	$165.2	$212.7	$1,532.2	16.2	$+ 497.7	+48.1
EDUCATION						
Support to State and Local Education	$254.3	$382.2	$4,376.9	46.3%	$+ 576.5	+15.2%
State Contribution to Teacher Retirement	35.2	35.6	386.7	4.1	+ 90.1	+30.4
TOTAL	$289.5	$417.8	$4,763.6	50.4	$+ 666.6	+16.3
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 27.2	$ 27.4	$ 302.7	3.2%	$+ 30.6	+11.2%
Payment of Public Debt	0	29.9	108.9	1.2	+ 3.9	+ 3.7
Social Security Contribution	20.8	19.9	208.2	2.2	+ 29.7	+16.6
State Contribution to Employee Retirement	8.8	7.0	87.6	0.9	+ 5.8	+ 7.1
Miscellaneous	0.4	1.5	10.1	0.1	- 1.6	-13.3
TOTAL	$ 57.2	$ 85.6	$ 717.7	7.6	$+ 68.4	+10.5
TOTAL EXPENDITURES[2]	$746.4	$947.7	$9,454.5	100.0%	$+1,450.8	+18.1%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

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STATE EXPENDITURES ABSTRACT *Continued*

raising the fiscal 1980 total to slightly less than $4.4 billion.

Welfare spending is still the second largest category of state expenditures. June and July welfare expenditures of $141.2 million and $140.1 million, respectively, have raised the fiscal 1980 total to nearly $1.5 billion. This accounts for 15.5 percent of total state spending and is an increase of $95.5 million or seven percent above last year.

Highway maintenance and construction costs totaled $195.1 million in July. Year-to-date highway spending is almost $1.4 billion, 14.7 percent of all state expenditures. Highway expenditures are running 52.6 percent above a year ago.

STATE EXPENDITURES BY OBJECT ABSTRACT

Almost $2.5 billion has been spent on Foundation School Program grants from September through July, accounting for 26.1 percent of all state expenditures. The second largest object of spending has been salaries and wages, which accounted for $171.5 million in July and nearly $2 billion for the year. Salaries and wages have increased by 10.4 percent above last year, while Foundation School grants have increased by 20.9 percent. Together, these two groups make up 46.8 percent of all expenditures.

Public assistance and medical care cost for indigent Texans reached $111.3 million in July. The year-to-date total for public assistance disbursements is more than $1.1 billion, a $76.5 million or 7.2 percent increase above the same period last year. These expenses are currently 12.1 percent of all state expenditures.

Capital outlays for highways totaled $108.7 million in June and $148.0 million in July, raising the fiscal 1980 total to $940.9 million. This represents an increase of $395.1 million or 72.4 percent.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1979—July 1980			
	June 1980	July 1980	Expenditures	Percent Of Total	Change From Last FY	
Salaries and Wages	$176.6	$171.5	$1,955.3	20.7%	$+ 183.8	+10.4%
Other Personal Services	76.8	74.4	813.2	8.6	+ 167.9	+26.0
Consumable Supplies and Materials	22.5	26.1	239.7	2.5	+ 46.4	+24.0
Current and Recurring Operating Expenses	32.7	36.3	367.0	3.9	+ 30.6	+ 9.1
Assistance and Medical Care for the Needy	111.7	111.3	1,145.8	12.1	+ 76.5	+ 7.2
Foundation School Program Grants	93.4	234.8	2,467.0	26.1	+ 426.3	+20.9
Other Public Education Grants	67.3	56.4	479.6	5.1	+ 45.9	+10.6
Grants to Higher Education	1.6	2.8	310.5	3.3	- 18.4	- 5.6
Other Grants	27.2	27.4	302.7	3.2	+ 30.6	+11.2
Payment of Principal on Indebtedness	0	19.1	51.8	0.5	+ 2.5	+ 5.1
Payment of Interest and Other Claims	0	10.7	57.3	0.6	- 0.1	- 0.1
Capital Outlay for Highways	108.7	148.0	940.9	10.0	+ 395.1	+72.4
Capital Outlay for Land and Buildings	14.8	14.4	135.3	1.4	+ 20.4	+17.8
Other Capital Outlay	13.0	14.5	188.5	2.0	+ 43.4	+29.9
TOTAL EXPENDITURES[2]	$746.4	$947.7	$9,454.5	100.0%	$+1,450.8	+18.1%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

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REVISION OF PRODUCTION AND CONSUMPTION INDICATORS

"Texas Production and Consumption Indicators," a regular feature of this publication, has been revised. The revision resulted from improvements in the procedures used to calculate the values for each production/consumption category.

Formerly, the value for each category in a particular month was derived by applying the nominal tax rate to tax collections for that month. This method did not consider discounts which affect the rate of tax or time lag between the month of production or consumption and the month of tax collection.

The revised procedures for deriving the values take into consideration both time lags and effective tax rates. For each category, an intitial estimate of the value is made by applying the effective tax rate to tax collections lagged to correspond with the actual month of production or consumption. For the Crude Oil and Natural Gas categories, the value for production volume is estimated using available data on average price per barrel and MCF, respectively. The estimated value is reported in one or more issues of **Fiscal Notes** until a report compiled from taxpayer returns becomes available. The estimated value is superseded by the actual value contained in the taxpayer report. For two categories--Crude Oil and Natural Gas--several revisions are reported until the taxpayer reports have been finalized. The Auto Sales and Cigarette categories will not be revised after the initial estimate.

These revised procedures will be employed for all future reporting of production and consumption indicators. To assure the validity of comparing the various values reported in each category, previously published values have been revised using the new procedures. The revised historical values are reported for the first time in this issue.

In addition to the above procedural changes, the "Production and Consumption Indicators" format has been altered to present a breakdown of Motor Fuel gallonage by Gasoline and Diesel sub-categories. Liquefied gas, which was previously included in the Motor Fuel category, is not reported because, beginning in January 1980, the liquefied gas tax is prepaid annually based on estimated consumption for various classes of vehicles. However, liquefied gas production is a relatively small portion of total motor fuel consumption.

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

INHERITANCE TAX

The Comptroller of Public Accounts has adopted amendments to Inheritance Tax Rules **.101 to .103** and **.105 to .113.** These amendments clarify existing rules and policy in an effort to eliminate routine questions received by the Inheritance Tax Division and to incorporate changes required by statute. Effective June 13, 1980. No significant fiscal implications are expected.

In addition, the following new Inheritance Tax Rules have been adopted:

.114 Property of the Estate in Possession of Another. This rule clarifies statutes regarding the responsibilities of persons or

Continued on page 20

TEXAS PRODUCTION AND CONSUMPTION INDICATORS
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Gallons Gasoline	Motor Fuel Gallons Diesel	Cement Cwt.	Cigarettes Pkgs.	Auto Sales Net Value
1978									
January	88.8	$ 790.7	627.2	$619.5	535.1	47.7	9.5	121.1	$ 671.9
February	80.7	725.3	579.3	572.2	503.1	47.9	19.0	117.4	707.9
March	90.3	819.2	608.0	600.8	609.1	55.3	16.7	131.0	887.2
April	85.9	783.1	559.7	543.9	569.6	53.6	16.2	133.5	961.5
May	88.1	807.0	577.9	575.9	621.5	54.3	16.9	142.1	1,149.4
June	85.1	784.3	569.6	561.4	616.4	53.2	14.8	146.7	1,009.8
July	86.9	804.7	589.8	585.7	608.8	50.7	17.0	139.6	960.5
August	86.9	810.7	585.5	576.2	625.5	55.2	13.4	110.2	1,101.9
September	83.6	787.4	544.4	538.5	567.4	49.0	17.8	162.6	728.3
October	87.3	829.7	549.4	541.4	590.4	54.4	12.7	141.1	936.3
November	83.6	800.1	543.1	531.5	575.7	54.7	13.9	138.5	799.2
December	85.0	819.4	570.7	592.8	596.6	48.3	7.2	138.4	807.6
1979									
January	83.2	816.8	597.3	648.3	562.3	53.6	11.0	138.3	945.7
February	76.8	762.4	553.3	600.8	507.6	51.6	14.8	109.7	757.2
March	84.7	847.1	581.4	642.6	589.9	64.0	14.7	136.4	979.4
April	80.6	842.7	579.8	637.9	563.6	55.2	15.7	142.1	1,095.7
May	83.1	890.8	584.6	676.1	591.4	61.9	17.4	141.1	1,049.8
June	79.8	990.7	583.3	687.0	581.9	57.5	15.8	145.0	934.6
July	81.7	1,060.8	618.5	755.8	578.5	55.2	18.6	148.7	960.3
August	80.2	1,102.9	627.2	766.4	750.9	59.8	14.5	116.6	1,071.5
September	77.4	1,093.4	595.9	737.1	540.0	56.7	19.1	164.0	964.1
October	78.9	1,155.8	607.9	769.8	575.0	58.9	16.5	161.8	892.0
November	72.3	1,115.7	600.0	770.0	564.7	69.6	13.2	131.9	871.3
December	79.5	1,285.6	624.8	789.6	572.4	59.3	12.7	135.0	911.7
1980									
January	79.0	1,356.6	625.1	841.6	652.8	107.5	14.1	138.8	888.8
February	72.1	1,342.8	611.9p	850.6e	631.2	103.1	15.3	135.0	997.7
March	71.7	1,374.8	648.0p	933.2e	658.9	110.8	16.6	134.7	1,024.5
April	75.7p	1,561.1e	624.2p	898.8e	665.4	98.0	13.8	152.8	845.8
May	83.0p	1,673.1e	629.9p	907.1e	681.9	96.1	16.0	144.7	921.0
June	79.3p	1,662.4e			660.0	104.5	16.0e	160.2	953.8
July								153.0	

e - estimated
p - preliminary

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OIL AND GAS PRODUCTION DATA

Oil and natural gas production are key elements of the Texas economy. Their significance for state revenue cannot be overstated either. Preliminary figures for the year ended August 31, 1980, indicate that oil production tax receipts totaled $783.8 million. This represents a substantial 68.6 percent increase above the previous year, reflecting the impact of oil price decontrol. Fiscal 1980 natural gas production tax revenue reached $734.2 million, a 32.4 percent boost above a year ago.

Table 1 shows Texas taxable crude oil production by calendar quarter from 1966 through the second quarter of 1980.[1] (Production on state-owned lands accounts for a difference between total crude produced and that taxed under the 4.6 percent levy on the market value of each barrel.) Since 1973, taxable production has declined annually, with 1979 production of 958.3 million barrels--a 7.2 percent decline from 1978--making it the first year since 1966 that the one-billion barrel level has not been achieved. Early indications are that the production decline will continue in 1980.

How have oil production taxes reached a record high with production levels continuing to decline? This is answered by the price data presented in Table 2. Average prices for Texas taxable crude oil have nearly doubled in the last year. During the first quarter of 1979, Texas crude oil prices averaged $9.92 per barrel. Under the Carter Administration's phased decontrol program, prices rose rapidly through 1979 and into 1980, to $18.28 per barrel during the first quarter of 1980. Preliminary figures for April-June 1980 suggest that the average price for Texas crude may now exceed $20 per barrel.

While recent price increases have not been as dramatic, the Texas natural gas situation parallels that of oil: declining production accompanied by rising prices. Table 3 shows Texas taxable natural gas production over the last 14 years. (As with oil, natural gas produced on state-owned lands accounts for most of the difference between total and taxable production. The current tax rate is 7.5 percent, levied on the market value of each thousand cubic feet sold.) Production declined steadily throughout the 1970s; however, in 1979 natural gas production of 7.15 trillion cubic feet showed a modest 3.6 percent increase above the previous year.

Increased access to intrastate natural gas by interstate markets and higher prices authorized under the Natural Gas Policy Act of 1978 have spurred the gain in production. As Table 4 shows,

TABLE 1
TEXAS TAXABLE CRUDE OIL PRODUCTION
(In Millions of Barrels)

Calender Year	Quarter 1st	2nd	3rd	4th	Total[1]	Percent Change
1966	242.7	250.6	248.9	255.2	997.4	--%
1967	254.6	250.0	292.9	271.1	1,068.5	+7.1
1968	280.4	273.9	268.9	259.1	1,082.3	+1.3
1969	256.4	281.7	278.7	282.7	1,099.5	+1.6
1970	295.1	291.4	297.0	320.0	1,203.5	+9.5
1971	306.5	302.9	286.3	277.8	1,173.5	-2.5
1972	295.6	319.0	321.5	319.3	1,255.4	+7.0
1973	308.1	312.8	314.5	314.9	1,250.4	-0.4
1974	297.9	305.0	304.0	302.9	1,209.8	-3.2
1975	293.9	296.5	293.4	294.7	1,178.5	-2.6
1976	289.5	285.4	287.8	283.0	1,145.6	-2.8
1977	274.9	276.1	273.1	271.6	1,095.8	-4.3
1978	259.8	259.1	257.4	255.9	1,032.2	-5.8
1979	244.7	243.5	239.4	230.8	958.3	-7.2
1980	222.9	238.0p				

SOURCE: Comptroller of Public Accounts tax records.

[1]Totals may not add due to rounding.
p - preliminary

[1]Previous reports have presented quarterly production and price data based on the state's fiscal year, which runs from September 1 through August 31.

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TABLE 2
AVERAGE TEXAS CRUDE OIL PRICES
(In Dollars Per Barrel)

Calender Year	Quarter				Annual Average	Percent Change
	1st	2nd	3rd	4th		
1966	$2.95	$2.95	$2.96	$2.99	$2.96	--%
1967	3.00	3.00	3.03	3.04	3.02	+ 2.0
1968	3.05	3.05	3.07	3.08	3.06	+ 1.3
1969	3.13	3.23	3.23	3.23	3.21	+ 4.9
1970	3.24	3.23	3.23	3.35	3.26	+ 1.6
1971	3.48	3.48	3.48	3.48	3.48	+ 6.7
1972	3.48	3.48	3.48	3.48	3.48	-0-
1973	3.48	3.73	4.08	5.08	4.10	+17.8
1974	7.22	6.82	6.69	6.87	6.90	+68.3
1975	7.97	7.70	7.72	7.79	7.80	+13.0
1976	8.29	7.90	8.13	8.41	8.18	+ 4.9
1977	8.35	8.30	8.45	8.81	8.48	+ 3.7
1978	8.99	9.16	9.33	9.57	9.26	+ 9.2
1979	9.92	11.21	13.61	15.42	12.49	+34.9
1980	18.28	20.57e				

SOURCE: Comptroller of Public Accounts tax records.

e - estimated

TABLE 3
TEXAS TAXABLE NATURAL GAS PRODUCTION
(In Million MCF's)

Calender Year	Quarter				Total[1]	Percent Change
	1st	2nd	3rd	4th		
1966	1,926.8	1,808.9	1,859.8	1,876.0	7,471.6	--%
1967	1,904.1	1,894.8	1,850.3	1,907.5	7,556.7	+ 1.1
1968	1,973.4	1,917.9	1,926.0	1,982.7	7,800.0	+ 3.2
1969	2,039.0	1,872.6	2,113.5	2,182.7	8,207.8	+ 5.2
1970	2,208.0	2,252.1	2,223.2	2,261.9	8,945.2	+ 9.0
1971	2,132.8	2,288.2	2,400.1	2,232.0	9,053.0	+ 1.2
1972	2,337.6	2,149.4	2,253.6	2,255.5	8,996.1	- 0.6
1973	2,304.3	2,221.4	2,220.5	2,216.1	8,962.3	- 0.4
1974	2,184.6	2,313.8	2,134.9	2,032.8	8,666.2	- 3.3
1975	1,903.7	1,885.4	1,979.3	1,969.5	7,737.9	-10.7
1976	1,938.7	1,816.0	1,863.7	1,905.9	7,524.2	- 2.8
1977	1,909.3	1,828.7	1,857.3	1,772.3	7,367.6	- 2.1
1978	1,814.4	1,707.2	1,719.6	1,663.3	6,904.6	- 6.3
1979	1,732.0	1,747.7	1,841.6	1,832.6	7,153.9	+ 3.6
1980	1,885.0p					

SOURCE: Comptroller of Public Accounts tax records.

[1]*Totals may not add due to rounding.*

p - preliminary

the 1979 average price of $1.19 per MCF represented a 19.7 percent boost above 1978. Early indications are that the average price was nearly $1.40 per MCF during the first quarter of 1980.

In summary, the past year has been characterized by rising prices for Texas energy resources, particularly oil. Although natural gas production showed a modest gain in 1979, the long-term trend for Texas oil and gas production is a continual decline. At what point energy price increases will fail to offset decreased production as far as state revenue is concerned is unknown.

Continued on page 20

OIL AND GAS *Continued*

TABLE 4
AVERAGE TEXAS NATURAL GAS PRICES
(In Cents Per MCF)

Calender Year	Quarter				Annual Average	Percent Change
	1st	2nd	3rd	4th		
1966	12.72 c	12.73 c	12.70 c	13.29 c	12.86 c	--%
1967	13.42	12.95	13.17	13.63	13.30	+ 3.4
1968	13.58	13.39	13.28	13.62	13.47	+ 1.3
1969	15.23	16.20	14.88	14.90	15.27	+13.4
1970	14.06	13.47	14.14	14.38	14.01	- 8.3
1971	15.51	14.78	14.37	15.75	15.08	+ 7.6
1972	15.61	16.39	16.63	17.01	16.40	+ 8.8
1973	17.01	18.34	20.13	22.05	19.36	+18.0
1974	25.37	27.31	33.67	38.52	31.02	+60.2
1975	43.85	48.26	52.63	58.46	50.89	+64.1
1976	64.45	68.67	73.30	79.19	71.39	+40.3
1977	85.95	90.55	91.75	94.11	90.52	+26.8
1978	98.79	98.47	98.88	100.15	99.06	+ 9.4
1979	109.22	114.49	122.68	127.11	118.56	+19.7
1980	139.28c					

SOURCE: Comptroller of Public Accounts tax records.
c - estimated

RECENT TAX RULES *Continued*

entities possessing assets and papers of a decedent. Effective June 13, 1980. No significant fiscal implications are expected.

.115 Assets Reported. This rule defines "Texas gross estate" and "total gross estate." These terms are a measure of the inheritance tax and appear on various returns. Effective June 13, 1980. No significant fiscal implications are expected.

MONTHLY STATEMENT OF CASH POSITION[1]
(Amounts in Millions of Dollars)

	General Revenue[2]	Special Funds	Total Cash
Beginning Cash Balance June 1, 1980	$ 50.6	$ 2,303.7	$ 2,354.3
Revenue and Expenditures			
Revenue	$ 659.8	$ 1,374.7	$ 2,034.4
Expenditures	440.4	1,253.8	1,694.1
Net Income (or Outgo)	$ 219.4	$ 120.9	$ 340.3
Net Interfund Transfers and Investment Transactions	$(200.9)	$ 67.0	$ (133.9)
Total Transactions	$ 18.5	$ 187.9	$ 206.4
Ending Cash Balance July 31, 1980	$ 69.2	$ 2,491.6	$ 2,560.7

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. Net amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.
[2]The General Revenue Fund cash balance includes $65 million transferred from Special Funds, as authorized by S.B.978.

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FI$CAL NOTE$

Bob Bullock, Comptroller of Public Accounts

Office of Budget and Planning

ISSUE 80:12

October-November, 1980

TEXAS STATE REVENUE REACHES $11 BILLION

Fiscal 1980 was a record year for both revenue and expenditures for the State of Texas. At year's end on August 31, 1980, revenue totaled $11.2 billion, including the restricted earnings of the state's educational endowment funds and retirement accounts. State spending totaled $10.2 billion.

Texas state finance had another record year in 1980. Both state revenue and expenditures exceeded $10 billion for the first time. For the year ended August 31, 1980, revenue from all sources totaled $11.2 billion, an increase of 18.9 percent above the previous year. Fiscal 1980 expenditures totaled $10.2 billion, an 18.7 percent boost above a year ago.

Monthly revenue collections from all sources are shown in Figure 1 for the last two fiscal years. As the graph indicates, a definite pattern of "peaks and valleys" exists. The principal factor accounting for this pattern is quarterly sales tax collections, which totaled nearly one-fourth of all Texas revenue in fiscal 1980. Also, notice that the low points in June and July are above any of the other low points. This occurs mainly because the corporate franchise tax is collected late in the fiscal year, with most tax payments due on the 15th of June. (See the financial tables contained in this issue of **Fiscal Notes** for revenue and expenditure detail for fiscal 1980.)

In the same manner that state revenue is sensitive to seasonal tax collections, expenditures reflect the pattern of disbursements for education. Educational programs account for nearly half of all state spending–included are expenditures by state colleges and universities and the Texas

Continued on page 2

INSIDE

STATES PROVIDE TAX RELIEF FOR THE HANDICAPPED

Tax relief is available in all 50 states and the District of Columbia for disabled persons. Texas, like the other states, has long recognized a need for special policies and programs to assist those with mental and physical handicaps..... **Pg. 4**

THE TEXAS ECONOMY

A computer model of the Texas economy is maintained by the Revenue Estimating staff of the Comptroller's Office of Budget and Planning. This approach came about as a result of the economic turmoil of the mid-1970's, which made forecasting state revenue a risky business. The structure of the model is discussed and recent developments in the state's economy are analyzed. ..... **Pg. 8**

RECENT TAX RULES ..... **Pg. 10**

MONTHLY STATEMENT OF CASH CONDITION ..... **Pg. 11**

STATE REVENUE

By Source ..... **Pg. 12**
By Program Category..... **Pg. 13**

STATE EXPENDITURE

By Object ..... **Pg. 14**
By Function ..... **Pg. 15**

PRODUCTION & CONSUMPTION INDICATORS ..... **Pg. 16**

REVENUE REACHES $11 BILLION

Continued

Education Agency, as well as Foundation School Program funding and state grants to elementary and secondary schools, junior and senior colleges and universities.

Substantial educational outlays in September, May and July are reflected in the high points on the plot of monthly state expenditures. (See Figure 2.) If educational spending is excluded, the remaining state expenditures would tend to be a fairly smooth plot.

Expenditures on a cumulative basis surpassed revenue collections for the first eight months of the fiscal year. (See Figure 3.) During the remainder of the fiscal year, the gap between the revenue and expenditures widened each month. By the end of August, the State of Texas had collected $11.2 billion and expended $10.2 billion--a difference of $1.0 billion. Most of this difference is accounted for by revenue which is not available for state spending. For example, the interest and dividend earnings of the teachers and employees retirement systems are held in trust. Royalty income from state-held lands that is deposited in the Permanent School and Permanent University Funds is not available for appropriation.

General Revenue Fund

So far revenue and expenditures have been viewed from an overall perspective. Many argue that the

FIGURE 1
STATE REVENUE COLLECTIONS BY MONTH
Fiscal Years 1979 and 1980
(All State Funds)

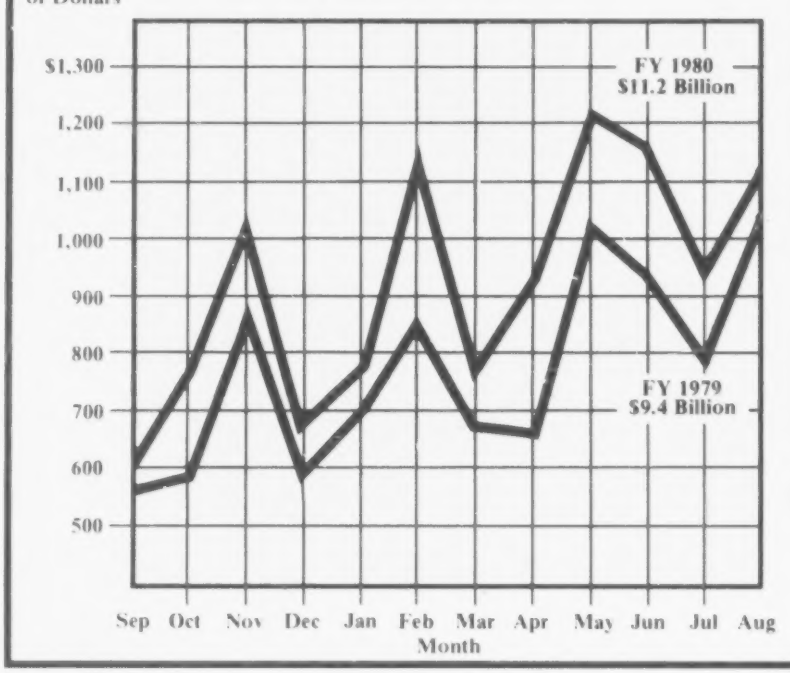


FIGURE 2
STATE EXPENDITURES BY MONTH
Fiscal Years 1979 and 1980
(All State Funds)

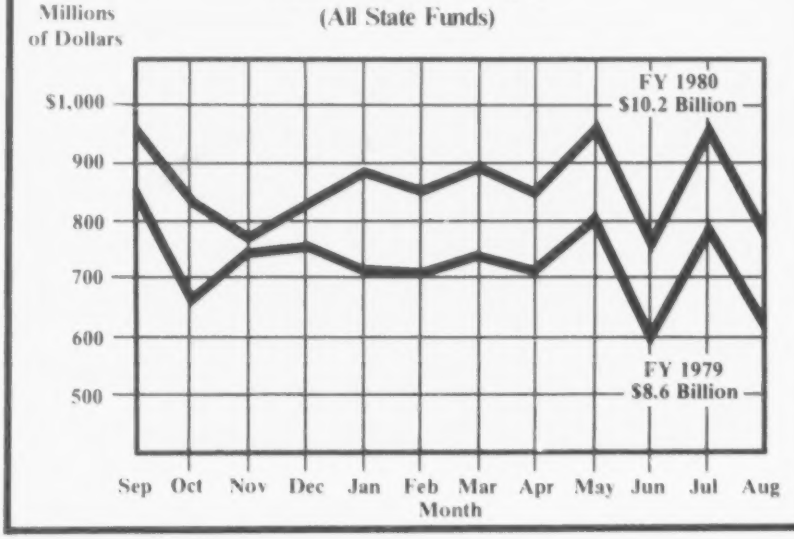


FIGURE 3
CUMMULATIVE STATE REVENUE AND EXPENDITURES BY MONTH
Fiscal Year 1980
(All State Funds)

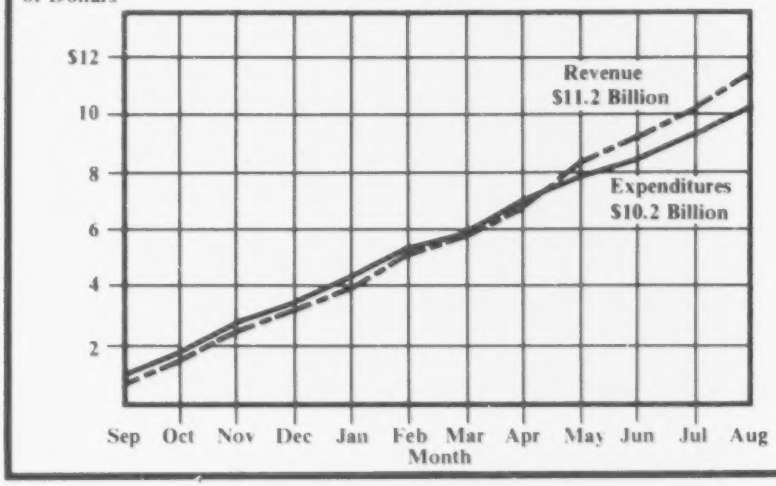
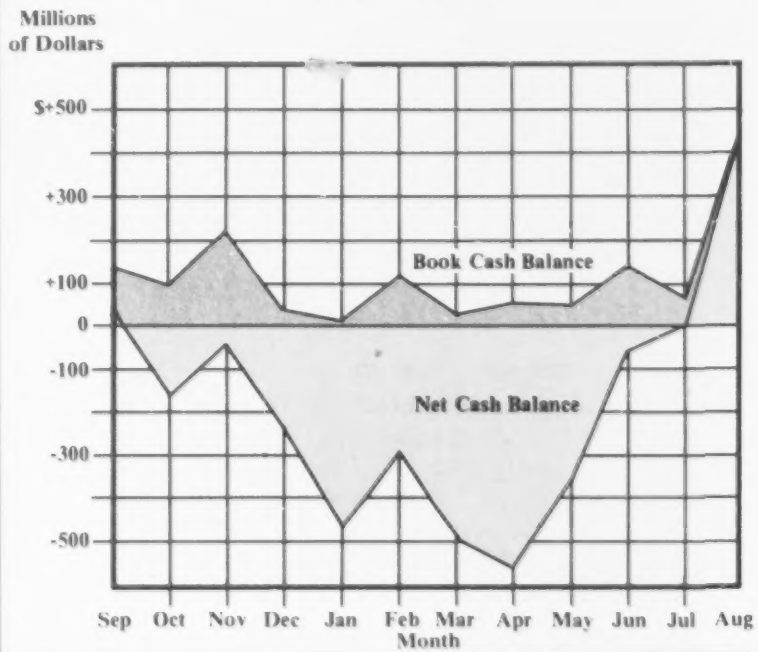


FIGURE 4
GENERAL REVENUE FUND
BOOK AND NET CASH BALANCE BY MONTH
Fiscal Year 1980



General Revenue Fund, the major state operating funds, is the best indicator of the financial health of the state. The net cash balance for the General Revenue Fund recorded a $566 million deficit in April 1980, the largest in recent years. (See Figure 4.) Although the General Revenue Fund can legally operate with a deficit, $618 million was transferred from other special funds into General Revenue, making the April book cash balance $52 million. The transfer of money from special funds to General Revenue was made possible in April 1979 with the passage of Senate Bill 978 by the 66th Legislature.

The substantial General Revenue Fund deficit experienced in April reflected a cash flow problem, not a downturn in revenue collections. As noted above, educational expenditures tend to be heavier at the start of the fiscal year while revenue is to some extent more evenly distributed. Senate Bill 978, introduced by Senator Grant Jones of Taylor County and enacted by the 66th Legislature, authorized the Comptroller to manage the General Revenue Fund cash balance by transferring cash from other special funds, thus preventing technical deficit balances caused by cash flow shortages. Outstanding cash transfers to the General Revenue Fund are viewed as liabilities of that fund. In August, after the return of the cash transferred to General Revenue back to the special funds, the General Revenue Fund ended fiscal 1980 with a positive cash balance of $439 million.

--Raul Torres

STATES PROVIDE TAX RELIEF FOR THE HANDICAPPED

About ten percent of all Texans suffer from some form of mental or physical disability.[1] Like other states, Texas has long recognized the need to develop special policies and programs to assist handicapped persons. Such programs may range from the elimination of architectural barriers to the provision of special rehabilitative and educational services.

Tax relief is one type of governmental assistance that all states provide in some form to disabled persons. To get some idea of the range of tax relief offered, current policies in all 50 states and the District of Columbia were examined. Table 1 summarizes by state the major taxes under which benefits for the handicapped are offered.

As the table shows, most tax relief provisions are granted under sales, property or income taxes. Texas state and local governments offer tax relief benefiting disabled individuals under the general and motor vehicle sales taxes, motor vehicle fees and through local property tax statutes. Texas does not impose an income tax.

Sales Tax

The most widely used tax relief device among the states is the sales tax exemption. While none of the states exempt all purchases by handicapped persons, 43 states and the District of Columbia grant one or more exemptions for items such as prescription drugs and medical devices which substantially benefit the handicapped. Of the remaining seven states, five–Alaska, Delaware, Montana, New Hampshire and Oregon--do not levy a state sales tax. Hawaii and Oklahoma levy sales taxes but grant no special exemptions for drugs or medical devices.

Table 2 summarizes the major categories of sales tax exemptions benefiting the disabled. The most common items exempted are prescription drugs, medicines and prosthetic devices. Forty-one states and the District of Columbia exempt drugs and medicine, while 35 states and the District of Columbia specifically exempt prosthetic devices. Other exemptions are orthopedic devices, exempt in 27 states and the District of Columbia, and ileostomy and colostomy appliances, exempt in 17 states. Twelve states exempt hypodermic needles and syringes. In addition, Rhode Island offers a sales tax exemption for tangible personal property sold by a blind person in a public building. Only North Dakota allows a sales tax exemption on equipment for modifying the principal dwelling of a permanently physically disabled person.

Texas exempts most items that create large expenditures for persons with disabilities. Exempted under the Texas sales tax are prescription drugs and medicine, orthopedic and prosthetic devices, eyeglasses, wheelchairs, iron lungs, kidney dialysis machines, specialized printing and signaling devices used by the deaf, hypodermic needles and syringes. Texas does not exempt oxygen regulators, whirlpools, patient lifts and electronic nerve stimulators, which are exempted by some states.

In addition to the general sales tax exemptions, eleven states exempt disabled persons from the motor vehicle sales tax. Seven of these limit the exemption to disabled veterans, while Texas and Vermont offer the exemption only to the physically disabled. Rhode Island's exemption is specifically for paraplegics. Only New Mexico offers a motor vehicle tax exemption to all physically and mentally disabled persons.

Property Tax

Forty-two states provide state and local property tax exemptions for the disabled, primarily on homesteads. Many of these exemptions are tied to income. For example, North Carolina offers an exemption of $7,500 of assessed value for totally and permanently disabled persons with disposable incomes of $9,000 or less. Beginning in 1981, Iowa's disabled residents will receive a property tax credit

Continued on page 7

[1] Estimates of the number of handicapped persons in Texas vary widely, depending largely on differences in definition. The Texas Rehabilitation Commission estimates there are currently 1.5 million disabled Texans. Using a broader definition, the City of San Antonio in 1978 estimated there were approximately 2.4 million persons with varying degrees of disability in Texas. The national figure is about ten percent of the population. (The terms "handicapped" and "disabled" are used interchangeably in this article.)

TABLE 1
Tax Benefits For Handicapped Persons
All States And The District Of Columbia, 1980
(X = exemption granted)

State	Sales and Use Tax[1]	Property Tax	Personal Income Tax	Motor Vehicle Fees
Alabama	X	X	X	X
Alaska	No Tax		No Tax	X
Arizona	X	X	X	X
Arkansas	X	X	X	X
California	X	X	X	X
Colorado	X		X	X
Connecticut	X	X	X	
Delaware	No Tax		X	
Florida	X	X	No Tax	X
Georgia	X	X	X	X
Hawaii		X	X	
Idaho	X	X	X	
Illinois	X	X	X	X
Indiana	X	X	X	
Iowa	X	X	X	X
Kansas	X	X	X	X
Kentucky	X		X	
Louisiana	X		X	
Maine	X	X		
Maryland	X	X	X	
Massachusetts	X	X	X	X
Michigan	X	X	X	
Minnesota	X	X	X	
Mississippi	X	X	X	
Missouri	X			
Montana	No Tax	X	X	
Nebraska	X	X		
Nevada	X	X	No Tax	X
New Hampshire	No Tax	X	X	X
New Jersey	X	X	X	X
New Mexico	X		X	X
New York	X	X		X
North Carolina	X	X	X	X
North Dakota	X	X	X	X
Ohio	X	X	X	X
Oklahoma		X	X	
Oregon	No Tax	X	X	
Pennsylvania	X	X		X
Rhode Island	X	X		X
South Carolina	X	X	X	
South Dakota	X	X	No Tax	
Tennessee	X	X	X	
TEXAS	X	X	No Tax	X
Utah	X	X		
Vermont	X	X		
Virginia	X	X	X	X
Washington	X	X	No Tax	X
West Virginia	X	X		X
Wisconsin	X		X	
Wyoming	X	X	No Tax	
District of Columbia	X		X	X
TOTAL	44	42	35	27

SOURCE: Commerce Clearing House, ***All State Tax Guide,*** *(Chicago: Commerce Clearing House, 1980).*

[1]*Includes motor vehicle sales taxes.*

TABLE 2
Sales Tax Exemptions Benefiting Handicapped Persons, 1980
(X = exemption granted)

State	Prosthetic Devices[1]	Drugs and Medicine	Orthopedic Devices[2]	Ostomy and Incontinent Supplies[3]	Hypodermic Needles and Syringes	Motor Vehicles
Alabama		X				
Arizona	X	X	X	X	X	
Arkansas		X				
California	X	X	X	X		
Colorado	X	X			X	
Connecticut	X	X	X		X	
Florida	X	X	X			
Georgia						X[4]
Illinois		X				
Idaho	X	X	X			
Indiana	X	X	X	X		
Iowa	X	X	X		X	
Kansas	X	X	X			
Kentucky	X	X	X			
Louisiana	X	X	X	X		
Maine	X	X	X		X	X[4]
Maryland	X	X	X	X		
Massachusetts	X	X	X	X	X	X[4]
Michigan	X	X				
Minnesota	X	X				X[4]
Mississippi		X				
Missouri	X	X	X	X		
Nebraska	X	X	X			X[4]
Nevada		X				
New Jersey	X	X				
New Mexico						X
New York	X	X	X			
North Carolina	X	X	X	X		
North Dakota	X	X	X	X		X[4]
Ohio	X	X	X	X	X	
Pennsylvania	X	X	X	X		
Rhode Island	X	X	X	X	X	X
South Carolina	X	X				
South Dakota	X	X	X	X		
Tennessee	X	X	X			
TEXAS	X	X	X	X	X	X
Utah		X			X	
Vermont	X	X	X	X	X	X
Virginia	X	X				X[4]
Washington	X	X		X		
West Virginia	X	X	X			
Wisconsin	X	X	X	X	X	
Wyoming	X	X				
District of Columbia	X	X	X			
TOTAL	36	42	28	17	12	11

*SOURCE: Commerce Clearning House, **All State Tax Guide**, (Chicago: Commerce Clearing House, 1980).*

[1]Prosthetic devices include such items as artificial eyes, arms and legs.

[2]Orthopedic devices include items that are used in the correction or prevention of human deformities of the skeleton, joints or spine, including braces.

[3]Ostomy devices and incontinent supplies include ileostomy, colostomy, ileal bladder appliances and related supplies.

[4]Limited to disabled veterans only.

TAX RELIEF FOR THE HANDICAPPED *Continued*

for all medical and necessary care expenses if their income does not exceed $10,000.

A few states provide exemptions which do not have income requirements. Florida, for example, provides a general exemption of $500 of assessed value for the blind and for persons with total and permanent disabilities. Alabama fully exempts property owned by totally and permanently disabled persons from the state homestead property tax. In Nevada, improvements that provide accessibility and safety do not cause an increase in the assessed value of residences of disabled persons. Improvements may include the removal of architectural barriers and the addition of elevators, handrails and ramps.

Some of the most extensive property tax relief measures are available only to disabled veterans. For example, in addition to an exemption of $1,000 of assessed value available to all veterans, California provides a $10,000 basic exemption to all disabled veterans. An additional $5,000 may be exempted if the household income is below a specified level. This income level, determined by the state's consumer price index, was approximately $27,000 in 1979. Illinois offers disabled veterans an exemption for housing that is specially adapted or constructed to suit their disability.

Texas offers three tax exemptions from local property taxes for disabled persons. Two are provided to all disabled persons, while one is limited to disabled veterans. The statutes define "disabled" as (1) a person unable to engage in any substantial gainful employment because of major physical or mental impairments; or (2) a blind person 55 years or older who because of blindness is unable to engage in a previous occupation.[2]

The Tax Relief Amendment, approved in 1978, amended the Constitution to allow local taxing jurisdictions the option of exempting $3,000 or more of the market value of the homesteads of the disabled and the elderly. This exemption must be approved on a year-to-year basis by the local governing body.

Legislation enacted in 1979 requires school districts to exempt $10,000 of the market value of the homestead of any elderly or disabled person. This is in addition to a general $5,000 school tax homestead exemption adopted at the same time.

All jurisdictions must offer an exemption of at least $1,500 to a maximum of $3,000 from the market value of a disabled veteran's residential or business property. The veteran must have a letter from the Federal Veterans Administration certifying the disability to be service-connected and specifying the percentage of disability.

Income Taxes

Most other tax relief for handicapped persons is included under state income tax statutes. Several states--including California, Kansas, North Carolina, Oklahoma, Oregon and South Carolina--offer personal income tax credits for the cost of eliminating architectural barriers in buildings. California, Delaware and North Carolina extend tax credits to corporate income taxpayers for the removal of architectural barriers. Additionally, California exempts a maximum of $25,000 per year from the corporate income tax for removing transportation barriers. Oklahoma allows deductions from the personal income tax of expenses incurred in modifying a motor vehicle, home or workplace for the handicapped. Tennessee excludes income from stocks, bonds, mortgages and notes held by a blind person from the state personal income tax.

Several states have adopted income tax refund or credit programs to assist disabled persons with energy expenses. For example, Colorado provides an income tax credit for the disabled and elderly for home heating fuel expenses based on income. Ohio provides a heating cost refund to disabled and elderly individuals. The refund ranges from 25 to 30 percent of the heating cost during the months of November through March, depending largely on income, the type of fuel used and utility billing procedures. Kentucky and Indiana have similar programs.

Recently, two states have enacted legislation that offers tax benefits to handicapped persons seeking employment. Colorado offers income tax credits to handicapped persons who incur expenses because of their employment. One credit is for the cost of a

Continued on page 8

[2]*State Property Tax Board, **Statement**, Vol. 2, No. 9, (March 1980), p. 12.*

TAX RELIEF FOR THE HANDICAPPED *Continued*

home attendant, not to exceed $50 per month. The other provides a maximum credit of $1,200 for durable medical equipment costing $300 or more. Employment features of the Oklahoma exemption mentioned earlier provide tax credits for modification expenses that encourage employment.

Motor Vehicle License Fees

In addition to tax exemptions, 26 states and the District of Columbia exempt disabled persons from payment of motor vehicle license fees. In 24 states, including Texas, this exemption applies only to disabled veterans. Nevada exempts only the blind and disabled veterans from motor vehicle license fees, while Ohio and Alaska offer the exemption to all handicapped persons.

Conclusion

All 50 states and the District of Columbia offer some tax relief measures for handicapped persons. Most of these are incorporated in state sales and income tax laws or in state and local property tax statutes. A number of states also grant special exemptions from motor vehicle fees to the disabled.

Texas compares favorably with the other states in providing tax relief to handicapped individuals. The state offers a large number of general sales tax exemptions which benefit the handicapped and also exempts motor vehicles purchased by the orthopedically handicapped from the state motor vehicle sales tax. While recent legislation renders the state property tax virtually nonexistent, the Legislature has authorized extensive local property tax exemptions for the disabled. The state also exempts disabled veterans from motor vehicle license fees. Finally, Texas has no personal income tax, which in itself is probably a greater benefit to the handicapped than tax credit programs enacted in other states.

--Elaine McDade, Toni Lopez

THE TEXAS ECONOMY

Editor's Note: Developments in the Texas economy will be highlighted in ***Fiscal Notes*** *as new data become available. This article addresses recent events, analyzed with the assistance of the State of Texas Econometric Model (STEM).*

The economic turmoil of the mid-1970s made forecasting state revenue a risky business. Unprecedented energy price increases and dramatic changes in national policy made historical data on oil and natural gas production taxes poor indicators of future receipts. Much the same was true for the state sales tax, where price inflation rendered revenue data from prior years unreliable as a basis for making judgments about anticipated collections.

In an effort to better grasp the impact of changes in national policy and international events on the Texas economy, the Comptroller's Office joined with the Legislative Budget Office and the Texas Energy Advisory Council (now the Texas Energy and Natural Resources Advisory Council) to contract with Chase Econometrics Associates, Inc., in 1976 for economic forecasting and state modeling services. Among the services was a computer model of the state economy. The State of Texas Econometric Model (STEM) originally developed by Chase is now operated and maintained by the Revenue Estimating staff of the Office of Budget and Planning.

STEM is a structural econometric model that forecasts key state economic variables. The model is structural in the sense that it attempts to describe the interactions that occur among the components of the Texas economy, as well as the relationships that exist between the Texas economy and the U.S. economy. It describes the real world economic relationships that exist between labor, business and government by the use of a system of statistical or econometric equations.

The Texas economy is too complex, however, to be captured totally without making several important assumptions. STEM assumes the following:

(1) Agriculture, mining and manufacturing make up the economic base of Texas and generate income which circulates throughout the rest of the economy.

(2) Production generated by the economic base of the state economy is directed primarily toward supplying national rather than state demands. The economic base is said to export goods and import money. For this reason the economic base of the state economy is often called the export sector.

(3) Within the state there also exists a local economy comprised of construction, transportation, utilities, finance, insurance, real estate, trade, services and governmental sectors. The economic forces that drive the local economy are the export sector and government, with the former having the greatest impact. Money generated by the export sector circulates and multiplies through the local economy, as do the fiscal and monetary actions taken by government.

These three assumptions make it possible for STEM to capture the direct interactions between the export sector of the state economy and the national economy. The structure of the model also allows for estimates of the impact of changes in the U.S. economy on the local economy of the state through the export sector.

Forecasting with the model requires a series of steps. First, forecasts of activity in sectors of the national economy which influence activity in the state's economic base are selected. These forecasts could come from anywhere, but in practice they are usually chosen from forecasts provided to the state by Chase Econometrics or Data Resources, Inc. (DRI was added to the interagency forecast subscription in 1978 to provide an alternate perspective on the national economy.)

The national forecasts are used in the STEM equations to calculate their impact on the state's economic base. Activity in the local part of the economy is then forecast on the basis of the calculated economic base. The discussion below is an analysis of the Texas economy through the use of the STEM model and forecasts of the national economy made by Chase Econometrics in August 1980.

Continuing Growth

While the national economy has been firmly in the grips of a recession, the Texas economy has gone through the first three quarters of 1980 with only a small slowdown in the overall level of economic growth. A STEM forecast of total personal income, based upon the August 21, 1980, Chase forecast, shows an increase of 2.9 percent between the second and third quarters of 1980 in current dollars (measured by current prices) and a one percent increase for the same period in real dollars (measured in 1972 prices). The growth rate of total personal income for Texas, however, has declined from its 1979 level of 14.8 percent. The STEM forecast for 1980 indicates a growth rate of 11.7 percent in total personal income.

The decrease in the growth rate of total personal income is a result of a decrease in U.S. manufacturing production of 7.5 percent as predicted by Chase Econometrics for 1979 through 1980. Despite this decrease in the growth of total personal income, overall employment in Texas should increase by 4.3 percent from 1979 to 1980. This increase in employment is due to nonmanufacturing activity stimulated by growth in the energy section of the Texas economy. These are annual growth rates based on quarterly forecasts generated by STEM.

The STEM forecast predicts a growth rate of 2.4 percent for 1979 through 1980 for real total personal income. This rate is down from the 5.2 percent growth rate of 1978 through 1979. This forecast reflects increased inflation during these two periods, more so than decreased production. The drought during the summer of 1980 is now increasing food prices, causing inflation to increase again. In current dollars total personal income continues to grow and reaches a 13.6 percent annual growth rate by 1982.

Relatively cheap and plentiful energy has attracted industrial investment to Texas for the past 15 years. The petroleum and related industries have continued growing for the first quarter of 1980. Although the output of crude oil has declined, the returns to petroleum and related activities are up because of price decontrol.

Continued on page 10

TEXAS ECONOMY

Continued

Among the top ranked SMSA's in the U.S. in terms of annual percentage growth in real personal income, Texas places four in the top ten and seven in the top twenty. They are: Beaumont (1), El Paso (2), Houston (4), Austin (6), Corpus Christi (13), San Antonio (16) and Dallas (18). Growth and Texas have indeed become synonymous.

The U.S. unemployment rate is expected to peak around 8.8 percent during the first quarter of 1981 according to the Chase forecast. STEM also predicts a 1981 first quarter peak in the unemployment rate for Texas, but at a level of about 5.2 percent. Based upon annual averages, the level of unemployment is expected to increase by 23.3 percent to 64,200 additional unemployed workers from 1980 to 1981. The labor force will increase by 130,300 workers over the same period, however, so the total number of employed will increase by 1.1 percent representing an additional 66,100 new jobs.

In other areas of the economy, a pattern of slower but continued growth is apparent.

(1) The growth rate for retail sales will fall 1.5 percentage points from its 1979 level of 15.9 percent to 14.4 percent in 1980. While the growth rate of retail sales will decline for 1980, total retail sales for 1980 will be $69.8 billion, compared to the 1979 total of $60.9 billion.

(2) The STEM forecast indicates slow growth in commercial and business loans for the last three quarters of 1980. This will result in a growth rate of 7.6 percent for 1980, down from the 14.8 percent growth rate of 1979. Real estate loans have been the hardest hit by high interest rates and are down 10.1 percent from the 1979 growth rate of 20.4 percent.

(3) Historically, economic demand decreases during a recession. Interest rates are lowered, increasing the availability of funds in the housing market, causing the level of housing starts to increase. The STEM forecast indicates a 20 percent increase in housing starts for the last quarter of 1980. This will end a pattern of negative growth that has plagued the Texas housing industry during the later quarters of 1979 and the early quarters of 1980.

The Texas economy will continue to improve due to continued growth in the state's key export sectors. Improvements in the U.S. economy will speed up the growth rate of the Texas economy. Inflation due to increased food and energy prices holds the biggest threat to a steady U.S. recovery at present. The STEM forecast for the remainder of 1980 implies continued growth but at a slow pace.

--Cedric Grice

RECENT TAX RULES

The Comptroller's Office periodically issues rules which clarify tax statutes and procedures affecting the state's taxpayers. Further details can be obtained by contacting the appropriate tax divisions of the Comptroller's Office at (512) 475-1914 or the Comptroller's toll-free number, 1-800-252-5555.

SALES TAX

.035 Yearly Filing of Reports. A taxpayer who has less than $500 state sales and use tax to report in a calendar year may request authorization from the Comptroller's Office to file yearly returns. Authorization may be obtained only if a taxpayer's liability did not exceed $500 in the prior calendar year. Authorization will be revoked if a taxpayer's annual liability subsequently exceeds $500. Effective June 25, 1980.

This amendment raises the maximum tax liability to qualify for yearly filing from $300 to

$500. The following estimate of the fiscal effects of the amendment for fiscal years 1980-1984 is based on the following: (1) the assumption that all qualified taxpayers will request authorization for yearly filing; (2) a cash flow change resulting from revenue formerly paid quarterly now received yearly; (3) the interest loss from the revenue delay; and (4) the administrative savings from the reduced number of quarterly returns.

Sales Tax Rule .035
Estimated Fiscal Effects
(In Thousands)

Fiscal Year	Cash Flow Change	Interest Loss	Administrative Savings
1980[1]	$(4,217)	$ (70)	$263
1981	(590)	(204)	423
1982	(673)	(234)	435
1983	(767)	(251)	457
1984	(875)	(263)	478

SOURCE: Comptroller of Public Accounts, Revenue Estimating
[1]Estimate is for two quarters in 1980.

.047 Retailer's Bond or Other Security. A retailer reporting taxes on a monthly basis must post bond or security in an amount equal to two times the amount of his or her average monthly tax liability. A retailer reporting quarterly or annually must post bond or security in an amount equal to one and one-half times the amount of his or her average quarterly tax liability. If a bond is calculated to be less than $100, no initial bond will be required. Effective June 25, 1980. No significant fiscal implications are expected.

.011 Contracts. This rule has been amended to incorporate Attorney General Opinion MW-94 (1979). Contractors who improve real property for an organization claiming an exemption under Tex. Tax.-Gen. Ann., Art. 20.04(H), should obtain an exemption certificate to exempt organization to improve real property belonging to an exempt organization for the primary use and benefit of the private party is not a contract exempt from sales or use tax. Only when the improved realty is for the primary use of the exempt organization may contract materials be purchased tax free. The amended rule also includes definitions and clarified language. Effective July 1, 1980. No significant fiscal implications are expected.

Continued on page 14

MONTHLY STATEMENT OF CASH CONDITION
(Amounts in Millions of Dollars)

	General Revenue	Special Funds	Total Cash
Beginning Cash Balance August 1, 1980	$ 69.2	$ 2,491.6	$ 2,560.7
Revenue and Expenditures			
Revenue	$ 417.4	$ 705.1	$ 1,122.5
Expenditures	169.4	597.4	766.7
Net Income (or Outgo)	$ 248.0	$ 107.7	$ 355.8
Net Interfund Transfers and Investment Transactions	$ 121.5	$ (406.8)	$ (285.3)
Total Transactions	$ 369.5	$ (299.1)	$ 70.5
Ending Cash Balance August 31, 1980	$ 438.7	$ 2,192.5	$ 2,631.2

[1]Cash stated is Comptroller's Office Book Cash and may vary from cash deposited with the Treasury. Net amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's Office. Suspense and Trust Funds are included as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

STATE REVENUE ABSTRACT

Revenue from all state funds was slightly more than $1.1 billion in August, bringing the fiscal year total to almost $11.2 billion. This represents an increase above fiscal 1979 of 18.9 percent or just slightly under $1.8 billion.

Tax collections in fiscal 1980 registered a 17.7 percent increase above last year and contributed more than $6.3 billion of total revenue. The sales tax growth for fiscal 1980 was 16 percent above a year ago. Receipts of $2.5 billion during the year continue to make the sales tax the predominant tax source in Texas.

Two taxes that showed substantial growth over fiscal year 1979 are the oil production taxes and the natural gas production tax. Oil production taxes exhibited an increase of 68.4 percent, accounting for $785.7 million in fiscal 1980. The natural gas production tax increased by 32.5 percent, with year-end receipts of $734.2 million. Oil and natural gas taxes represented 24 percent of tax collections.

Motor fuel taxes collected in August were $39.2 million, raising the fiscal 1980 total to $480.7 million, a 1.8 percent decrease from 1979. The decline can be attributed to the decrease in gasoline tax collections. Motor vehicle sales tax with receipts of $437.9 million in fiscal 1980 exhibited a very slow one percent growth rate.

Federal funds, which accounted for 23.5 percent of all state revenue this year, have experienced a 14.3 percent increase over last year. August receipts were $235.8 million, raising the year-end total to $2.6 billion.

STATE REVENUE[1]
(Amounts in Millions of Dollars)

Tax Collections by Major Tax	Monthly Revenue August 1980	Monthly Revenue Percent Of Total	Year-to-Date September 1979—August 1980 Revenue	Year-to-Date Percent Of Total	Change From Last FY	
Sales Tax	$ 376.7	54.5%	$ 2,521.4	39.7%	$+ 347.1	+ 16.0%
Natural Gas Production Tax	63.5	9.2	734.2	11.6	+ 179.9	+ 32.5
Motor Fuels Taxes	39.2	5.7	480.7	7.6	- 8.8	- 1.8
Oil Production Taxes	81.4	11.8	785.7	12.4	+ 319.0	+ 68.4
Motor Vehicle Sales Tax	42.0	6.1	437.9	6.9	+ 4.5	+ 1.0
Cigarette and Tobacco Taxes	27.8	4.0	321.8	5.1	+ 12.5	+ 4.0
Corporation Franchise Tax	3.9	0.6	340.8	5.4	+ 47.0	+ 16.0
Alcoholic Beverage Taxes	15.9	2.3	200.5	3.2	+ 18.9	+ 10.4
Insurance Companies Taxes	3.1	0.4	176.1	2.8	+ 9.6	+ 5.8
Utility Taxes[2]	17.5	2.5	111.5	1.7	+ 7.8	+ 7.5
Inheritance Tax	6.9	1.0	75.6	1.2	+ 1.8	+ 2.5
Ad Valorem (Property) Tax	4.4	0.6	47.3	0.7	- 1.9	- 3.9
Telephone Tax	2.1	0.3	59.8	0.9	+ 7.4	+ 14.1
Other Taxes[3]	6.9	1.0	50.5	0.8	+ 8.7	+ 20.7
TOTAL TAX COLLECTIONS[4]	$ 691.4	100.0%	$ 6,343.8	100.0%	$+ 953.5	+ 17.7%
Revenue by Source						
Tax Collections (detail above)	$ 691.4	61.6%	$ 6,343.8	56.7%	$+ 953.5	+ 17.7%
Federal Funds	235.8	21.0	2,627.9	23.5	+ 328.2	+ 14.3
Interest Income	98.5	8.8	1,043.9	9.4	+ 205.6	+ 24.5
Licenses and Fees	41.6	3.7	478.0	4.3	+ 69.8	+ 17.1
Land Income: Rents, Royalties, Sales	39.5	3.5	550.5	4.9	+ 173.0	+ 45.8
Other Revenue Sources[5]	15.7	1.4	137.4	1.2	+ 49.4	+ 56.1
TOTAL REVENUE[4]	$1,122.5	100.0%	$11,181.5	100.0%	$+1,779.4	+ 18.9%

[1] Excludes some revenue not cleared through the Comptroller's Office.
[2] Includes the Utility Tax, Gas Utility Administration Tax and the Public Utilities Gross Receipts Tax.
[3] Includes the Hotel-Motel, Cement and Sulphur Taxes, and other occupation and gross receipts taxes not separately identified.
[4] Totals may not add due to rounding.
[5] Patient Maintenance and Support Fees, Grants, Donations and Miscellaneous Revenue.

REVENUE BY PROGRAM CATEGORY ABSTRACT

Revenue from personal property--chiefly the sales tax--was the major source of state receipts in fiscal 1980. Receipts from personal property levies totaled $390.7 million in August, raising the year-end total to almost $2.7 billion. This category accounted for 23.7 percent of all state revenue.

Natural resources brought in $191.2 million during August for a fiscal 1980 total of slightly under $2.1 billion. This represents a 49.4 percent increase above last fiscal year. This group of revenue includes the oil, gas and sulphur production taxes, as well as oil and gas royalties, leases and land sales.

The Transportation category--motor fuel taxes, federal highway grants, and motor vehicle registration fees, among others--brought in $156.2 million in August. Year-end receipts were nearly $1.8 billion, representing 15.8 percent all state revenue.

The "Other" category includes items such as interest income and federal revenue sharing. August receipts under this category totaled $128.4 million, raising the fiscal 1980 total to $1.5 billion.

REVENUE BY PROGRAM CATEGORY[1]
(Amounts in Millions of Dollars)

Category	Monthly Revenue		Year-to-Date September 1979—August 1980			
	August 1980	Percent Of Total	Revenue	Percent Of Total	Change From Last FY	
Transportation[2]	$ 156.2	13.9%	$ 1,765.0	15.8%	$+ 536.1	+ 43.6%
Personal Property	390.7	34.8	2,650.1	23.7	+ 350.1	+ 15.2
Business Regulation	12.9	1.1	406.1	3.6	+ 57.0	+ 16.3
Insurance	3.6	0.3	185.5	1.7	+ 12.3	+ 7.1
Utilities	19.6	1.8	171.4	1.5	+ 15.2	+ 9.7
Alcoholic Beverages	16.7	1.5	211.3	1.9	+ 19.2	+ 10.0
Tobacco	27.8	2.5	322.2	2.9	+ 12.5	+ 4.0
Natural Resources	191.2	17.0	2,086.4	18.7	+ 689.6	+ 49.4
Agriculture	0.2	0	3.5	0	+ 0.3	+ 7.8
Parks and Wildlife	3.8	0.3	37.7	0.3	- 1.6	- 4.0
Education	65.8	5.9	640.2	5.7	+ 92.4	+ 16.9
Health	13.0	1.2	149.0	1.3	+ 15.8	+ 11.8
Welfare and MHMR	92.7	8.3	1,012.3	9.1	+ 16.8	+ 1.7
Other[2]	128.4	11.4	1,540.7	13.8	- 36.3	- 2.3
TOTAL REVENUE[3]	$1,122.5	100.0%	$11,181.5	100.0%	$+1,779.4	+ 18.9%

[1]Excludes some revenue not cleared through the Comptroller's Office.
[2]Previously, Federal Receipts for transportation programs were recorded as "Federal Receipts-Other." These entries were transferred to the Transportation category in February, explaining the 43.6 percent increase in the "Transportation" category and the 2.3 percent decrease in the "Other" category.
[3]Totals may not add due to rounding.

RULES *Continued*

.060 Multistate Tax Credits. This rule has been amended to add clarifying definitions. The amendment also states that, as a member of the Multistate Compact, Texas will allow as credit against Texas use tax due on property, any sales or use taxes paid on the same property to another state or political subdivision of another state. The credit will be applied first against use tax due the state, then against MTA use tax due, and finally against city sales tax due. Effective June 25, 1980. No significant fiscal implications are expected.

STATE EXPENDITURES BY OBJECT ABSTRACT

The largest object of state spending in August was salaries and wages, totaling $167.7 million, raising the fiscal 1980 year-end total to $2.1 billion. This category, which represents the second largest category of state spending on a yearly basis, increased 10.7 percent over last year, while overall expenditures exhibited an 18.7 percent increase.

Foundation School Program grants were the largest object of state spending in fiscal 1980 with disbursements of almost $2.6 billion accounting for 25.4 percent of total expenditures. Foundation School Program grants increased at a rate of 23 percent above fiscal 1979.

Assistance and medical care for the needy accounted for $105 million of total August expenditures of $766.7 million. Fiscal 1980 disbursements of almost $1.3 billion for this category accounted for a marginal increase of 6.2 percent over fiscal 1979.

Capital Outlays for Highways--with fiscal 1980 disbursements of slightly less than $1.1 billion--exhibited the fastest growth rate, 76.5 percent, of any category of state spending. Fiscal 1980 disbursements accounted for 10.6 percent of all spending.

STATE EXPENDITURES BY OBJECT[1]
(Amounts in Millions of Dollars)

Object	Monthly Expenditures		Year-to-Date September 1979—August 1980			
	August 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
Salaries and Wages	$167.7	21.9%	$ 2,123.0	20.8%	$+ 204.6	+10.7%
Other Personal Services	75.5	9.8	888.9	8.7	+ 184.9	+26.3
Consumable Supplies and Materials	22.5	2.9	263.8	2.6	+ 50.6	+23.7
Current and Recurring Operating Expenses	34.3	4.5	399.7	3.9	+ 27.4	+ 7.4
Assistance and Medical Care for the Needy	105.0	13.7	1,250.8	12.2	+ 72.7	+ 6.2
Foundation School Program Grants	124.4	16.2	2,591.4	25.4	+ 485.0	+23.0
Other Public Education Grants	24.0	3.1	503.5	4.9	+ 25.2	+ 5.3
Grants to Higher Education	21.2	2.8	331.7	3.3	- 12.2	- 3.5
Other Grants	26.5	3.4	329.3	3.2	+ 36.0	+12.3
Payment of Principal on Indebtedness	0	0	51.8	0.5	+ 2.2	+ 4.4
Payment of Interest and Other Claims	0	0	57.3	0.6	- 0.1	- 0.2
Capital Outlay for Highways	145.4	19.0	1,086.2	10.6	+ 471.0	+76.5
Capital Outlay for Land and Buildings	10.4	1.4	145.8	1.4	+ 20.5	+16.4
Other Capital Outlay	9.8	1.3	198.2	1.9	+ 42.7	+27.4
TOTAL EXPENDITURES[2]	$766.7	100.0%	$10,221.4	100.0%	$+1,610.6	+18.7%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

STATE EXPENDITURES ABSTRACT

State expenditures totaled $766.7 million in August, raising the fiscal 1980 total to $10.2 billion. This is an increase of $1.6 billion or 18.7 percent above fiscal 1979 disbursements.

Education continues as the major function of state government, with 45.3 percent of each state dollar spent to support state and local education. Educational outlays in August totaled $250.8 million, raising the year-end total to $4.6 billion.

During 1980 welfare spending was the second largest category of state expenditures. August welfare expenditures totaled $132.5 million, boosting the fiscal year total to $1.6 billion. This accounts for 15.7 percent of all state expenditures and for a nominal 6.1 percent increase above fiscal 1979.

Highway maintenance and construction--with disbursements of nearly $1.6 billion in fiscal 1980--represents the third largest category of state spending. An increase of 55 percent above last year makes this the fastest-growing expenditure category.

STATE EXPENDITURES[1]
(Amounts in Millions of Dollars)

Category	Monthly Expenditures		Year-to-Date September 1979—August 1980			
	August 1980	Percent Of Total	Expenditures	Percent Of Total	Change From Last FY	
ADMINISTRATIVE						
Executive Departments	$ 16.0	2.1%	$ 183.2	1.8%	$+ 39.7	+27.6%
Business Regulatory Commissions	4.9	0.6	59.3	0.6	+ 7.8	+15.2
Legislative	1.9	0.2	23.1	0.2	- 1.6	- 6.4
Judicial	2.1	0.3	25.5	0.2	+ 3.8	+17.4
TOTAL	$ 24.9	3.2	$ 291.1	2.8	$+ 49.7	+20.6
SERVICES						
Welfare	$132.5	17.3%	$ 1,601.3	15.7%	$+ 92.1	+ 6.1%
Mental Health, State Homes and Corrections	44.4	5.8	513.6	5.0	+ 59.0	+13.0
Health and Sanitation	12.1	1.6	153.7	1.5	+ 16.0	+11.6
Law Enforcement	8.4	1.1	103.4	1.0	+ 13.1	+14.5
TOTAL	$197.3	25.8	$ 2,372.0	23.2	$+ 180.1	+ 8.2
IMPROVEMENTS						
Highway Maintenance & Construction	$189.1	24.7%	$ 1,580.9	15.5%	$+ 560.9	+55.0%
Natural Resources	9.0	1.2	94.3	0.9	+ 8.0	+ 9.3
Parks and Monuments	4.7	0.6	59.8	0.6	+ 11.3	+23.4
TOTAL	$202.8	26.5	$ 1,735.0	17.0	$+ 580.3	+50.3
EDUCATION						
Support to State and Local Education	$250.8	32.7%	$ 4,627.7	45.3%	$+ 623.2	+15.6%
State Contribution to Teacher Retirement	35.8	4.6	422.8	4.1	+ 99.7	+30.9
TOTAL	$286.6	37.3	$ 5,050.5	49.4	$+ 722.9	+16.7
OTHER EXPENDITURES						
Grants to Political Subdivisions and Others	$ 26.5	3.4%	$ 329.3	3.2%	$+ 36.0	+12.3%
Payment of Public Debt	0	0	108.9	1.1	+ 3.9	+ 3.7
Social Security Contribution	19.0	2.5	227.2	2.2	+ 31.7	+16.2
State Contribution to Employee Retirement	9.2	1.2	96.8	1.0	+ 7.6	+ 8.5
Miscellaneous	0.4	0.1	10.6	0.1	- 1.7	-13.7
TOTAL	$ 55.1	7.2	$ 772.8	7.6	$+ 77.5	+11.1
TOTAL EXPENDITURES[2]	$766.7	100.0%	$10,221.4	100.0%	$+1,610.6	+18.7%

[1]Excludes some expenditures not cleared through the Comptroller's Office.
[2]Totals may not add due to rounding.

TEXAS PRODUCTION AND CONSUMPTION INDICATORS
(Amounts in Millions)

Year and Month	Crude Oil Bbls.	Crude Oil Value	Natural Gas MCF	Natural Gas Value	Motor Fuel Gallons Gasoline	Motor Fuel Gallons Diesel	Cement Cwt.	Cigarette Pkgs.	Auto Sales Net Value
1978									
January	88.8	$ 790.7	627.2	$619.5	535.1	47.7	9.5	121.1	$ 671.9
February	80.7	725.3	579.3	572.2	503.1	47.9	19.0	117.4	707.9
March	90.3	819.2	608.0	600.8	609.1	55.3	16.7	131.0	887.2
April	85.9	783.1	559.7	543.9	569.6	53.6	16.2	133.5	961.5
May	88.1	807.0	577.9	575.9	621.5	54.3	16.9	142.1	1,149.4
June	85.1	784.3	569.6	561.4	616.4	53.2	14.8	146.7	1,009.8
July	86.9	804.7	589.8	585.7	608.8	50.7	17.0	139.6	960.5
August	86.9	810.7	585.5	576.2	625.5	55.2	13.4	110.2	1,101.9
September	83.6	787.4	544.4	538.5	567.4	49.0	17.8	162.6	728.3
October	87.3	829.7	549.4	541.4	590.4	54.4	12.7	141.1	936.3
November	83.6	800.1	543.1	531.5	575.7	54.7	13.9	138.5	799.2
December	85.0	819.4	570.7	592.8	596.6	48.3	7.2	138.4	807.6
1979									
January	83.2	816.8	597.3	648.3	562.3	53.6	11.0	138.3	945.7
February	76.8	762.4	553.3	600.8	507.6	51.6	14.8	109.7	757.2
March	84.7	847.1	581.4	642.6	589.9	64.0	14.7	136.4	979.4
April	80.6	842.7	579.8	637.9	563.6	55.2	15.7	142.1	1,095.7
May	83.1	890.8	584.6	676.1	591.4	61.9	17.4	141.1	1,049.8
June	79.8	990.7	583.3	687.0	581.9	57.5	15.8	145.0	934.6
July	81.7	1,060.8	618.5	755.8	578.5	55.2	18.6	148.7	960.3
August	80.2	1,102.9	627.2	766.4	750.9	59.8	14.5	116.6	1,071.5
September	77.4	1,093.4	595.9	737.1	540.0	56.7	19.1	164.0	964.1
October	78.9	1,155.8	607.9	769.8	575.0	58.9	16.5	161.8	892.0
November	72.3	1,115.7	600.0	770.0	564.7	69.6	13.2	131.9	871.3
December	79.5	1,285.6	624.8	789.6	572.4	59.3	12.7	135.0	911.7
1980									
January	79.0	1,356.6	625.1	841.6	652.8	107.5	14.1	138.8	888.8
February	72.1	1,342.8	570.4r	796.3r	631.2	103.1	15.3	135.0	997.7
March	71.7	1,374.8	628.6r	898.8e	658.9	110.8	16.6	134.7	1,024.5
April	67.7r	1,339.3r	629.9p	907.1e	665.4	98.0	13.8	152.8	845.8
May	77.1p	1,673.1e	607.4p	874.7e	681.9	96.1	16.0	144.7	921.0
June	76.3p	1,662.4e	647.8p	932.8e	660.0	104.5	16.6r	160.2	953.8
July	80.7e	1,756.2e			702.1e	120.1e	16.4e	153.0	999.7
August					689.7e	94.5		138.0	1,011.4
September								160.5	

e - estimated
p - preliminary
r - revised